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Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS

BUSINESS
Management
Business Education

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

BOOKS & ARTS
Style Guide

PEOPLE
Obituary

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS
Correspondent's Diary

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E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

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Print Edition March 17th 2001

Bush's Asian challenge
Finding safe ways to manage America's friendship with Japan and its competition with China ... More on this week's lead article

News Summaries
Business this week
The world this week

Leaders
Bush's Asian challenge
A Balkan lesson in defence
Britain off the rails
Foot, mouth, farm, subsidy
No excuses
Scrap affirmative action

Letters
On displaced persons, China's lobbyists, "Eurocrats", America's taxes, energy, European agriculture, Michelin, Falun Gong, censorship, SAT tests, Iraq and sanctions, Bagehot's maths

Special
The uneasy triangle

United States
Primary colours
Jesse Jackson
Blessed are the tax collectors
Legal language
Mind the gap
Correction: Dale Earnhardt
Grapeshot
The national debt
Imagine if it disappeared
Lexington
Stopping soft money
Down and (almost) out in New Orleans

The Americas
Guyana's closely observed election
Colombia
The outside world looks in
Women's rule
Canada
It's tough on the left
Chile
Riding the rails
The Zapatour at ground zero
Argentina
Case not closed

Asia
Japan's long goodbye
Debate in China, within strict limits
Indonesia
Holy war in the Spice Islands
Not so sunny in the Koreas
Mongolia
The zud strikes again
India
Dotcom coup

Make sure you're backed up

Europe
Muddle in Moscow
Germany
The cheque isn't in the post
France
Local lessons
Charlemagne
Otto Schily puts the cuffs on Germany's far right
Ireland
It's those Brits again
EU regulation
We'll do better next time
Portugal
A flood of misery
Italy's voters say what matters

Britain
A better way to run a railway
London Underground
Ken has all the aces
Barely sensational
Agriculture
The carcasses pile up
Bagehot
More sinned against than spinning
The wealth effect
Unemployment
Hard Labour
Education
Operation Kangaroo
The politics of fishing
Battered

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International
Congo's new president meets the world
The Palestinians
Waking up to life under Sharon
Zambia
Glued to the throne
Uganda
Tarnished victory

Previous print editions
Mar 10th 2001
Mar 3rd 2001
Feb 24th 2001
Feb 17th 2001
Feb 10th 2001
More print editions and covers »

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Face value
The oracle strikes back
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Regional jets
Small is beautiful
South African industry
Minefield

Business Special
Churning at the top

Finance & Economics
The challenge from up north
Soaring Saigon
Japan's financial markets
Crunch time
America's stockmarkets
The bear essentials
Economics focus
Measuring flexibility
Banking for the well-off
Mad for the mass affluent
Britain's Prudential
Pond-leaping
Cash in your chips
European economies
France 1 Germany 0

Science & Technology
Cloning around
The end of Mir
Solid-state physics
Superduperconductivity
Climate change
Getting real

Books & Arts
Wonderful Will
Playing with politics
English authors
Auden's passion
New fiction from Russia
Speech therapy
Business and the Nazis
Trading with evil
How corporate bosses think
Conventionally
Thalidomide
Good stuff
Russia's disputed transition
No other way

Obituary
Ninette de Valois

Economic Indicators
OUTPUT, DEMAND AND JOBS
COMMODITY PRICE INDEX
LIVING STANDARDS
PRICES AND WAGES

Financial Indicators
MONEY AND INTEREST RATES
STOCKMARKET TURNOVER
TRADE, EXCHANGE RATES AND BUDGETS
STOCKMARKETS

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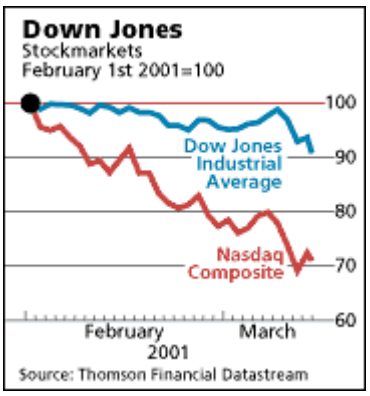
Business this week

Mar 15th 2001
From The Economist print edition

Pursued by a bear

Stockmarkets around the world tumbled. America's high-tech Nasdaq Composite index fell below 2,000 for the first time since December 1998 as profit warnings and other bad news pushed down shares in high-tech companies. The Dow Jones Industrial Average suffered too—a disturbing new development. Europe's and Japan's stockmarkets also crumbled.



See article: American bears

America's slowing economy claimed victims at **Cisco Systems**, a vast communications-equipment company. The firm announced the lay-off of up to 5,000 full-time and 3,000 temporary workers from its staff of 44,000.

See article: The technology slump

Ericsson, a giant telecoms-equipment maker, issued a profits warning, causing its shares to plummet 20%. Flagging handset demand also hit **Motorola**, America's mobile-equipment leader. It said that 7,000 jobs would go in addition to the 11,000 announced since December.

See article: The technology slump

Siemens, a huge German engineering and telecoms-equipment maker, issued a profit warning. It blamed falling demand for memory chips, a big earner. The European company's news followed similar bad tidings from America's big chip makers.

See article: The technology slump

Razorfish, a once high-flying American Internet consultancy, was said to be planning more job cuts. It recently shed 20% of its staff of 1,800. **MarchFirst**, another web consultancy, lost three leading executives.

Cable & Wireless, a formerly somnolent British telecoms company, said that it would cut 11% of its workforce—some 4,000 employees—over the next year and that profits would be below its own forecasts. The company's shares fell 20%.

Sage knew his onions

Warren Buffett, dubbed the sage of Omaha for his stock-picking acumen, reclaimed his title after two bad years. The oracle's reputation suffered when he declined to jump on the tech-stock bandwagon; it was restored with the news that his Berkshire Hathaway investment company had made profits of $3.3 billion in 2000, more than double the previous year's earnings.

See article: Face value: Warren Buffett, an oracle back in form

Prudential, a British life insurer, agreed to acquire an American counterpart, American General, for $20 billion-plus. Prudential described the purchase as "transformational". Investors thought the cost too high, transformed holdings into cash and wiped 14% off Prudential's shares.

See article: A British insurer in America

Smoking and health

Derek Bonham, chairman of **Imperial Tobacco**, will step down from the board of **GlaxoSmithKline**, the world's third-largest drug company, after pressure from executives at the company. They sensed a conflict of interest between his role at a cigarette company and his non-executive directorship at a firm that makes anti-smoking aids and drugs.

Antitrust regulators and private-sector lawyers agreed in principle to establish a "global competition committee". The idea is to improve co-ordination among national competition authorities.

An American bankruptcy court dismissed rival offers for **Trans World Airlines** leaving the way open for a $742m bid for the bankrupt airline from American Airlines. American will become the world's largest airline and control a large slice of the home market.

BFGoodrich, an American aerospace and engineering company, won a contract worth up to $3 billion to design and make the main landing gear for Airbus Industrie's new A380 "superjumbo". European rivals did not lose out completely; **Messier Dowty**, a French firm, landed a less lucrative contract to supply the nose wheel.

BAE Systems, a British defence and aerospace company, made its latest attempt to sidestep competing for valuable defence contracts. The government reportedly rejected a suggestion that it hand straight to BAE a contract for a £13 billion ($19 billion) in-flight refuelling system. BAE has also tried to avoid competing with Thales, a French company, to supply aircraft carriers, and Vosper Thornycroft, a British shipbuilder, for destroyers.

EM.TV, a debt-ridden German TV company, admitted that it was thinking about selling the **Jim Henson Company**, creator of the Muppet Show. The sale was said to be a condition of a rescue deal by **Kirch Group**, another German TV outfit. It is unlikely that Kermit, Miss Piggy and the rest will fetch anything like the $680m that they cost.

Deutsche Telekom's Ron Sommer and Klaus Esser, former boss of **Mannesmann**, joined the ranks of managers undergoing investigation by German prosecutors. Mr Esser is accused of warming to the sale of his firm to Vodafone to secure handsome payoffs for his board and himself; Mr Sommer of undervaluing his company to ensure the success of a recent share offering.

Mixed economy

Japan avoided slipping into recession. Its economy grew by a sluggish 0.8% at an annual rate in the fourth quarter, giving growth of 1.7% for the year to the end of December. Despite this, bankruptcy figures for the year to the end of February set a record, the current-account surplus fell 64% in January and the Nikkei 225 hit a 16-year low.

See article: Japan's battered markets

Turkey announced an economic-recovery plan. The collapse of its exchange-rate policy had forced it to drop an earlier IMF-backed programme. The new package includes privatisations and banking reforms. The authorities showed they meant business next day, seizing control of Iktisat, a medium-sized bank.

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The world this week

Mar 15th 2001
From The Economist print edition

Cattle fever

Reuters

As **foot-and-mouth disease** swept Britain, the government claimed it was under control. Some cases were discovered in France. The EU banned movement of live animals from that country. Canada and the United States banned all meat imports from the EU. Argentina admitted to its first case.

See article: More foot-and-mouth

Clashes in **Macedonia** between ethnic-Albanian guerrillas and police spread across the country. Fighting in a suburb of Tetovo, the country's second-largest city, left at least one dead and another 13 wounded, most of them policemen. Meanwhile, hundreds of **Yugoslav** soldiers moved, with NATO's permission, into a buffer zone on the border with Kosovo to quell similar fighting involving ethnic Albanians there.

See article: A Balkan lesson in defence

Italy's parliament was dissolved for an election on May 13th. The pollsters' favourite: centre-right Silvio Berlusconi, over the centre-left's Francesco Rutelli.

See article: What do Italy's voters want?

French municipal elections failed to produce the "pink wave" that pollsters had expected. But no clear comfort for the centre-right either—except that the extreme right failed miserably.

See article: France's municipal voting

Just before Chancellor Gerhard Schröder's visit to Washington, **German** companies came up with promises of enough money, about 30% of the total needed, to complete a $2.3 billion fund to compensate people forced into slave labour by the Nazis.

See article: Compensating Hitler's slave labourers

After curious manoeuvres, a parliamentary vote of no confidence in **Russia**'s prime minister got nowhere. President Vladimir Putin left the squabblers to themselves and took off for a mountain resort; "to polish a big speech," said aides. The one he will give to an EU summit in Stockholm on March 23rd?

See article: Wavering Putin

A matter of face

AP

In a face-saving move for Japan's embattled prime minister, **Yoshiro Mori**, it seems likely that he will stay on until he has had summit meetings with the American and Russian presidents. However, once the budget has gone through parliament, Mr Mori will probably go.

See article: Japan's prime-ministerial hopefuls

India's ruling coalition was in disarray after a number of politicians and bureaucrats were named in a bribes scandal. Bangaru Laxman resigned as

president of the BJP, the main party in the coalition, but said allegations against him were “baseless”.

See article: India’s “dotcom” scandal

China said it hoped that the United States would abandon its plan to build a **missile shield** but was willing to discuss the issue to “narrow our differences”. North Korea, smarting over criticism of its government by President George Bush, called the missile plan a “blatant challenge”.

See article: Bush’s Asian challenge

Afghanistan’s ruling Taliban expelled Kate Clark, a BBC correspondent, for reporting criticism of the destruction of the country’s Buddhist statues.

Uganda’s “no-party”

Yoweri Museveni was re-elected in **Uganda**’s “no-party” presidential poll with nearly 70% of the vote. Most observers thought that the result largely reflected voters’ wishes, but the president’s chief challenger, Kizza Besigye, refused to accept it, claiming intimidation and fraud.

See article: Museveni stays on in Uganda

Burundi’s defence minister said that 200 rebels and 20 government soldiers had been killed in two weeks of battles in a suburb of Bujumbura, the capital.

Southern African governments removed the chairmanship of their regional defence body from Zimbabwe’s President Robert Mugabe. In future it will be held on a rotational basis.

Up to 80,000 people have been displaced by floods in **Mozambique**. So far, 52 people have been killed.

A British charity, Christian Aid, accused **Sudan**’s government of systematically depopulating oil-rich areas to allow in international oil companies. The charity’s report says tens of thousands of people have been displaced.

Welcoming **Iran**’s President Muhammad Khatami to Moscow, Russia confirmed that it would resume conventional arms sales to Iran, and also help it to complete a nuclear-power plant. The United States called on Russia not to supply advanced conventional weapons to Iran. In the past, Russian companies have been accused of helping Iran to build increasingly long-range missiles.

Fearing bomb attacks in **Israel**, the Israeli army sealed off several West Bank towns. After reports of people dying on their way to hospital, some of the blockades began to be eased.

See article: Palestinian life under Sharon

Friendly fire

Five American soldiers and a New Zealand major were killed in an **accidental bombing** by a US Air Force jet in Kuwait.

President Bush retreated from a campaign promise to regulate American power plants’ **carbon-dioxide emissions**. He wants to increase domestic energy production.

The new United States **census**, for 2000, showed the country’s fast-growing Latino population nearly overtaking blacks. Nearly 7m people said they belonged to more than one race.

See article: The changing shape of America

The Zapatist rebels, under Subcomandante Marcos, arrived in **Mexico city**. There they planned to stay until Congress passed a bill allowing more autonomy for Mexico's Indians. They refused however to enter discussions with congressmen.

See article: Marcos gets to Mexico city

A judge in **Argentina** overturned the country's amnesty laws, which had allowed members of the armed forces to escape prosecution for human-rights abuses that were committed during the years of military rule.

See article: Argentina reopens the books

Reuters

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Bush's Asian challenge

Mar 15th 2001
From The Economist print edition

IF ONLY Asia's problems were as easy to rearrange as the White House visitors book. George Bush wants to team up more closely with America's allies, Japan and South Korea, rather than spend time, as Bill Clinton did, chasing an illusory "strategic partnership" with China. But early plans to accord a symbolic first Asian handshake to Japan's Yoshiro Mori, as ally-in-chief in the region, fell victim to the hapless Mr Mori's political troubles. That honour then fell last week to South Korea's Kim Dae Jung. Next week the handshake diplomacy repeats itself as farce. Though in deeper trouble than ever, Mr Mori is to be rushed in to see Mr Bush a few steps ahead of China's foreign-policy mandarin, Qian Qichen. That puts China in its place (see article).

Up to a point. Whether as partners or competitors—as the Bush team would more accurately have it—America and China have a testy agenda to work through, from China's troubling proliferation habits and patchy human-rights record, to America's missile-defence plans and its arms sales to Taiwan. Rows already loom, leaving Mr Bush and China little time for small talk. But Mr Bush can at least be sure of his allies: an enfeebled Japan absorbed with its own troubles, and a South Korea preoccupied with North Korea.

Anyway, weighty Japan and rising China are not alternative choices around which America can construct its Asia strategy. Relations with both will need careful tending.

Despite its current fragility, Japan is America's friend and Asia's leading regional power: its economy is second only to America's and it is Asia's most generous supporter of poorer countries (including China) both near and far. This helps a lot, since, unlike Europe, Asia is not criss-crossed with stability-preserving alliances. Yet, despite their own strengthened security alliance, in a conflict that drew in America's forces, Japan's pacifist-sounding constitution would still have Asia's best equipped armed forces doing little but holding America's coat and carting away its casualties. Mr Bush needs to persuade a reluctant Japan to share more of Asia's military burdens. It might help if he and China, which might someday be tempted to test America militarily, can get off to a reassuring start, by keeping talking, not shouting at each other.

In other words, while Mr Bush's problem with Japan will be to manage their co-operation, with China it will be to manage their competition. China does not always make that easy. Despite the changes that have so dramatically opened up its economy in recent decades, China is still, after all, a communist dictatorship. It is unhappy with the territorial status quo in the region and occasionally kicks out at it, in the South China Sea and over Taiwan, both of which it claims as its own. It wants respect as a great power, and tends to see America as the chief threat to its ambitions.

Hence the importance of Mr Qian's visit to Washington. Some long-standing irritations between the two—over human rights, trade and proliferation issues—can probably now be more safely managed on the basis of agreements Mr Clinton negotiated: the conditions for China's accession to the World Trade Organisation; its published promises to limit nuclear and, most recently, missile exports. Implementation will be tough. With China it always is. But at least there are some agreed rules, and others, including Japan and Europe, can help America keep up the pressure for China to stick to them.

There are no such accepted ground rules to help deal with the two issues that could most easily pitch America and China into a new crisis: Taiwan and Mr Bush's plans for missile defences. The two are linked closely in China's mind, since it worries that America's plans for national defences could undermine China's small nuclear deterrent, while less capable regional ones developed to help defend, say, American troops in Japan, could also someday be used to protect Taiwan from China. The issues are linked in other ways too, since China's own behaviour—helping the missile ambitions of dodgy regimes and firing off its own missiles when it wants to intimidate Taiwan's voters—has helped drive the search for new defences. Yet both problems offer opportunities, not just dangers, if the two sides will reach for them.

One China, two problems

For years China, Taiwan and America could all agree on one thing: that there is but one China. This allowed them to disagree in relative safety about what sort of China it might be: one country, two systems, as China has long proposed; or one nation, two states, as many Taiwanese might now prefer. But the ruse works less well now that Taiwan is a democracy, and its voters can reject China's increasing insistence that the only alternative to negotiated unity is forced unity. America, committed to help Taiwan defend itself, has a dangerous balance to keep. But it could be made less dangerous.

Mr Clinton leaned a little too far China's way. His mention of the "three noes" for the first time on Chinese soil in 1998—no two Chinas, no independence for Taiwan, and no support for its membership in organisations of sovereign states—both offended Taiwan and emboldened China. Mr Bush needs to draw the line more clearly, making the three noes five: no use of force by China to settle the issue and no political deal without the support of Taiwan's people.

But at the same time he needs to temper the enthusiasm of his pro-Taiwan lobby for selling all the arms Taiwan can buy. Ultimately, Taiwan's security depends on America's support, rather than on any particular ship, missile or radar. As a way of exploring new possibilities for restraint on both sides, Mr Bush could usefully strike off next month's arms list items like America's top-of-the-line Aegis anti-missile system. Even Aegis could not defend Taiwan against a determined assault from China's missiles, and holding back gives Mr Bush extra room to explore a new pattern of mutual restraint with China. If China will not play, he can change his mind.

If America and China could avoid an early clash over Taiwan, they just might find a way to defuse the missile defence issue. Taiwan's interest in missile defences will decline only as China's threats to the island subside, and only China can do anything about that. But China's concerns about its own small nuclear deterrent offer America and China the opportunity to open a stabilising new dialogue.

Mr Bush is determined to explore defences. China can go on shrilly opposing them, and make good its threat to tear up the few international weapons-limiting agreements it has signed. Or it could sit down with America and work out a stable balance between any future missile defences and the future size of China's own long-range nuclear arsenal. China this week signalled an encouraging readiness to talk first and keep its powder dry. The handshakes over, Mr Bush and Mr Qian will have plenty to talk about.

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A Balkan lesson in defence

Mar 15th 2001
From The Economist print edition

Europeans and Americans do best when they cover for each other, rather than fall out

EPA

NOT for the first time, armed clashes in the Balkans are injecting a welcome dose of military realism into petty political squabbles between Europeans and Americans over who should be doing what in security and defence. Clashes in the area where Macedonia, Kosovo and Serbia proper meet are being watched over by a robust peacekeeping force, led by NATO. Periodically the peacekeepers turn enforcers, to apprehend guerrillas; this week, they brokered a truce in the Presevo valley, in southern Serbia. But could the violence there and in the northern strip of Macedonia pose a serious threat to peace in Europe?

Until now it has seemed little short of miraculous, given the carnage elsewhere in the region over the past decade, that the delicate equilibrium between Macedonia's Slavic majority and its growing Albanian minority has been maintained. For that, some credit must go to the quietly effective UN force that was deployed in Macedonia until 1998. But nobody should assume that Macedonia's luck will hold.

Although that country has recently had an admirable tradition of inter-ethnic co-operation at national level, it is always easier to be a provocateur than a peace-maker. That is the calculation of the National Liberation Army, an ethnic-Albanian guerrilla group that has pledged to turn Macedonia into a sort of segregated binational state. There is always a risk that provocation will succeed where two communities, distrustful of one another and separated by language and culture, compete over poor economic pickings. There were ominous signs this week of the violence spreading.

Compared with other Balkan crises that have simmered, and boiled over, in recent years, Macedonia's is potentially even more serious, though by no means doomed to a tragic outcome. Its gravity lies in the fact that a breakdown in relations between Slavs and Albanians in Macedonia could reignite conflict in other places where ethnic-Albanians live: not just in Kosovo and the Presevo valley, but in Montenegro and in Albania itself. The nightmare—cited in the past by American officials as a reason for caring about the Balkans—is that war in Macedonia could eventually drag in Greece and Turkey, two NATO members, on opposite sides.

One reason for hope that the worst can be avoided is that Macedonia's Albanians, more than their cousins elsewhere, are prosperous enough to have some stake in stability. A census, due in April, will give a better reading of their weight in the population—perhaps 35%—and legitimate grounds for seeking greater political rights by peaceful means.

Then there is the help that Americans and Europeans can provide. It so happens that it was the Americans, contrary to their gun-shy image, who bore the brunt of the first open gun-battles between NATO and the ethnic-Albanian militants earlier this month. That usefully shows all-comers that NATO's will to quash extremism is shared by its strongest member—and at a time when some Europeans are blaming America for condoning ethnic-Albanian chauvinism.

Not for sissies

But if Europeans are to be serious about defence, they need to realise that it is not politically realistic to expect American soldiers to take the lead in all the messier bits of Balkan peacekeeping. European soldiers, with more experience of inter-communal conflict, should be doing the hardest work on the ground, with the Americans acting as a quiet but well-armed deterrent back-up. Similarly, Americans need to realise that peacekeeping is vital work, and not for sissies.

Both will need to avoid the temptation of buck-passing or recrimination if the going does get tough. Politicians in Europe felt profoundly reassured by the recent pledge from Colin Powell, America's secretary of state, that Americans and Europeans would go "in together and out together" in their Balkan peacekeeping mission. With Macedonia on the brink, the Bush administration still finding its foreign-policy feet, and hackles raised in Washington by some European leaders' aspirations to self-sufficiency in defence, European governments should be extra-careful to pull their full weight in the Balkans. There, as in most dangerous situations they may confront, a sensible division of labour between Europeans and Americans can make all the difference.

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Britain off the rails

Mar 15th 2001
From The Economist print edition

Britain's model for privatising its railways has been a failure, which makes the government's attempts to repeat the error on the Tube look especially odd

PA

THERE is nothing quite so bad for the blood pressure as sitting on a stationary train, and Britain has developed a nasty case of hypertension over the past six months. Ever since a crash at Hatfield in October which killed four people, the railways have been in chaos. Trains are running at pre-second-world-war speeds, and, despite revised time-tables, arriving hours late. Hundreds of speed restrictions are still in place across the network. The politicians, the regulator, the train operating companies and the track-and-signals company all blame each other.

For the country that built the first railway, this is all particularly galling. We invented them, dammit: why can't we run them? There is plenty of scope for interesting but not ultimately very useful debate about social attitudes and industrial decline; a more immediate culprit is the way in which the railways were privatised five years ago. The Conservative government, with an election approaching, rushed into a scheme that divided British Rail into 25 train operating companies on short-term franchises. The track, signals and stations were owned by another company, Railtrack. This structure, the theory went, would allow operating companies to run competing trains on the same bit of track.

That never happened; and while the expected benefits of this structure never manifested themselves, the costs became increasingly apparent. Railtrack and the operating companies squabbled constantly. Railtrack's power over the operating companies meant it had to be tightly regulated, so 90% of its income from track access charges was fixed. It therefore had no incentive to invest in growth. The service has, in consequence, deteriorated—a problem exacerbated by an economic boom and rocketing passenger numbers.

Since Labour came to power, it has made the problem worse by over-regulating the industry and interfering haphazardly. The boundaries between the responsibilities of the Rail Regulator, the Strategic Rail Authority and the Department of the Environment and Transport are so unclear that the industry's three overseers, which all have conflicting priorities, jostle for power. Railtrack's plummeting credit rating and share price are due not only to investors' worries about its management but also to concerns about its relationship with its regulators. In its weakened state, Railtrack cannot raise enough money to meet the railways' investment needs.

Nor has the government tried to sort out the central flaw in the rail industry's structure—the division of track and trains. Indeed, its plans for London's Tube repeat the error.

Only reconnect

London Underground has long been a source of misery to the capital's residents. They visit foreign cities, and wonder at metro systems with clean trains that arrive regularly and frequently. A government that provided anything approaching such a paragon would win the hearts of Londoners—and secure some of the capital's 20-odd marginal seats, too.

Yet the government has managed to come up with a scheme that everybody—not just Ken Livingstone, London's mayor, but pretty much all the industry experts who have looked at it—hates. The "public-private partnership" envisages three private infrastructure companies to run the track and signalling for 30 years, while publicly-owned London Underground would operate the trains. And the reason the scheme has aroused such hostility is that everybody thinks that it would make the Tube as unmanageable as the railways. As the row reaches a climax (see article), it looks as though the government, more out of fear than of good sense, may be preparing to abandon its daft scheme.

Which would still leave open the question of what to do about the railways. Simplifying the regulation of the industry would help—the railways should have one master, not three—but would not solve the problems created by the separation of the track and the trains. The answer is to join them up again. Some of the train operating companies seem inclined to do just that. They are talking to Railtrack (see article) about taking over responsibility for the track in their areas. The government could hinder this process, or help it along—which is what, if it has any sense, it will do.

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Foot, mouth, farm, subsidy

Mar 15th 2001
From The Economist print edition

Governments, including Britain's, have been slow in controlling the spread of foot-and-mouth disease. But they should resist demands for subsidies

Reuters

HAVING begun life three weeks ago as a British problem that merely alarmed farmers and politicians elsewhere, foot-and-mouth disease is starting to have international, even worldwide, effects. The first confirmed cases of the disease have been found in cattle and sheep on the continent of Europe; previous slaughterings in Europe were merely on suspicion, or were of livestock that had simply come from Britain and which thus might be carrying the virus. A case has also been found in Argentina. America has begun to impose controls on travellers from Europe, forcing some to walk through disinfectant, and, along with a number of other countries, has banned imports of meat or meat products from Europe. All this is on top of the more than 220 confirmed cases of the disease in Britain, and the roughly 180,000 cattle and sheep that have been killed and burned in that country alone (see article). It is not a pretty sight.

Nor are the sounds associated with it any more pleasant. Ireland's resources minister, Hugh Byrne, described Britain as "the leper of Europe" (see article). Since leprosy is now curable, that might be considered optimistic, though it is unlikely that he meant it that way. The other loudest sounds are of commentators criticising governments, especially Britain's, for acting too slowly to deal with the disease, and of everyone involved—farmers, hoteliers, bar-keepers—starting a campaign for compensation from national governments or from the EU. Are either of these noises justified?

Slaughter, don't subsidise

The proper role for governments in dealing with a problem like foot-and-mouth arises from the very reason why the disease causes so much fuss: the fact that it is highly infectious. On its own merits, the ailment ought not to cause politicians or bureaucrats to do anything more than offer advice on how to avoid or contain it. For it poses no danger to consumers, and merely makes animals a lot less productive. Its infectiousness, however, gives it the potential to make a lot of other animals less productive too, very quickly. So the carelessness of one importer, say, can have consequences across a whole national industry and even around the world.

Private operators cannot readily protect their herds and flocks from the carelessness of others. This produces a case for government regulation—though not a cast-iron one. Private solutions such as insurance or mutual certification might work. But still, governments may be a cost-effective and trusted way to provide such certification and to bring carelessness to light. So, in the event of an outbreak of the disease, governments are also well-placed to organise and enforce measures to limit the spread of the disease.

Have they done that job well? If you are trying to prevent a virus from spreading, you had better do so quickly. That is why the continental European countries which immediately ordered the slaughter of animals merely on the ground of their national origin were acting more logically, if brutally, than those, like Britain's, who largely waited to see. With hindsight, the British government may have taken too much time to trace and slaughter all the animals that had been shipped in recent months from the Northumbrian farm where the disease first broke out—a fault tacitly admitted by its decision on March 15th to slaughter 100,000 healthy sheep. And the fact that other governments have waited until this week to ban meat imports from Europe and tighten controls on travellers looks pretty lax. If such controls make any sense at all, they should have been imposed straight away.

But what of compensation? The case for that is far weaker. After all, plenty of people and companies

suffer from the misfortunes of others without expecting money from the government. The dotcom collapse has hurt thousands of other firms. Steel firms may have sudden losses because of exchange-rate movements. Bank failures may suddenly deprive other companies, and other banks, of the oxygen of credit. Neither farmers, nor those involved in tourism or sporting events, should have any right to special treatment. Governments can and should step in when a malaise threatens to damage the whole economic system, but not otherwise. The right way to protect farmers is insurance, not subsidy.

That is not the way Europe's agricultural policy works today, nor indeed the farms policies in many other countries. But it should be. If farmers are poor, then they should be helped like others in poverty. But if they are merely temporarily loss-making businesses, they should be treated like others of that sort: with sympathy, but not subsidy.

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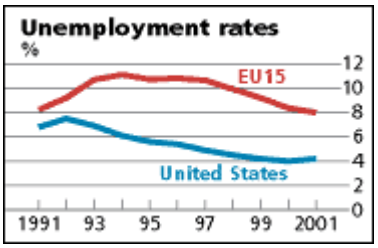
No excuses

Mar 15th 2001
From The Economist print edition

America's economy looks less of a role model than it used to, but that is no reason for European governments to scrap plans for structural reform



THE governments of the European Union have long been lectured by economists on the need to make their markets for goods and labour more like America's. That is the way, the sermon goes, to boost growth and jobs. And they believed it. A year ago, at their Lisbon summit, EU leaders promised to change their policies and make the EU "the most competitive and dynamic knowledge-based economy in the world". Back then, America's economy was growing almost twice as fast as Europe's. Today, it isn't. Will this lessen Europe's zeal, such as it is, for economic liberalisation?

It could. America may yet slip into recession. As its tech-stock bubble bursts, European politicians may conclude that America's economic miracle was partly mirage. With Europe's economies now outpacing America's, they might see less reason to get on with the promised structural reforms—especially since many of the reforms still pending are politically challenging.

Any such weakening of resolve would be a bad mistake. When EU leaders meet in Stockholm on March 23rd-24th, they will assess their progress on structural reform so far. Some progress has been made, but overall the record is disappointing. All the more reason why governments must press on with reforms and not allow America's economic stumble to breed complacency. Another sermon is required. More than you might suppose, Europe still needs to make its labour and product markets more flexible and to open its economies to more competition.

One reason is that even if the economies of the European Union enjoy faster growth this year than the United States, this will say nothing about their long-term growth prospects. Even if America's boom has turned to bust, its more flexible economy will not only help it to recover from any recession, but will also continue to give America a big long-term advantage. The recent relative economic performance of Germany and France deserves attention in this regard. French employment has grown twice as fast as Germany's over the past four years (see article). It is no coincidence that France has done much more than Germany to free its labour markets; indeed, recent measures have arguably made Germany's labour market even less flexible. However, the French government is far from being a role model. It has dragged its heels on deregulating the energy market, and its labour market still looks arthritic compared with America's.

Another reason why Europe cannot afford to shun reform is that productivity gains from investing in information technology tend to be bigger in economies with flexible markets. America has made real gains in productivity that will survive its downturn. Inflexible labour and product markets hinder the movement of workers and capital that is needed to unlock productivity gains and raise living standards.

New solutions for old economies

Last, but not least, if structural reforms boost jobs, this will help to solve Europe's looming pensions crisis. On present policies the ratio of retired people to workers in the EU will rise from 0.7 in 2000 to 1.1 by 2030, placing a huge strain on public finances. However, calculations by CSFB, an investment bank, show that if by reducing unemployment and by encouraging more people to join the labour force, employment was lifted from the current 60% of the population of working age to 75% (as in America), the old-age dependency ratio would rise much less sharply, from 0.7 to 0.9. Combined with a modest increase in the average retirement age, this would be enough to hold the dependency ratio steady.

Those are three excellent reasons not to backslide on reforms. Europe's jobless rate is currently double America's. If unemployment starts to climb again over the next year, European politicians will undoubtedly blame America's slowdown. They would do better to accept that most of the blame lies with

their own labour-market policies.

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Scrap affirmative action

Mar 15th 2001
From The Economist print edition

The new census figures show that America is an increasingly multiracial society. It is time to end affirmative action

Get article background

AP

THE latest census of the United States reveals a society in the grip of a demographic revolution (see article). The old black-and-white America that produced the tragedy of black oppression and the glory of the civil-rights movement is giving way to a more complicated country—in which browns are as numerous as blacks, and in which some 7m people say they belong to more than one race. Herman Melville's observation that an American is a man who has the blood of the whole world flowing in his veins is now truer than ever. America boasts a vigorously growing population, while Europe and Japan do not. And it boasts a young population that is increasingly indifferent to old racial stereotypes and divisions. But the transformation should also be the spur for some hard thinking about the policy of affirmative action.

Affirmative action was the product of a country that was sharply divided between blacks and whites—between the descendants of former slaves and a white population that, with varying degrees of culpability, had helped to do blacks down. Blacks had been held back first by slavery, then by Jim Crow laws, and finally by countless informal restrictions about where they could live and whom they could date. So they needed to be given special consideration, first in the form of federal contracts in construction, then in the form of lower standards in university admissions.

The Economist supported affirmative action for blacks then; it was less happy about its relentless extension to other groups, such as Latinos, Asians, Pacific Islanders and, with the least justification of all, to women. Recently we have argued that preferences, if any, should be based on class, not colour or gender. But regardless of your views or ours, America's changing demographics prompts a hard choice. Should affirmative action be kept just for its original beneficiaries—the descendants of slaves? Should it be extended to all "people of colour"? Or should it be scrapped?

Too little help, too much complexity

Restricting affirmative action to blacks would seem to have the advantage of focusing the benefits on a set of people who have suffered an undoubted wrong. But it gets tricky in practice. What about a Ugandan immigrant who happens to be black but never suffered Jim Crow? Or what about people like Tiger Woods—people who claim to belong to more than one race? Poor Latinos might ask why their children are being held to higher academic standards than the children of black doctors. And a wide array of other groups could legitimately ask why they were being denied the fruits of preferential treatment: Chinese-Americans whose ancestors were treated like chattels; Japanese-Americans, whose ancestors were interned during the second world war; and native Americans whose ancestors were robbed of their land and their dignity.

Given these difficulties, most supporters of affirmative action now choose the second option: extending the programme to include all minorities. The fashionable justification is that affirmative action is no longer making amends for past ills but instead creating diversity. University officials say it creates a "more positive" learning environment.

But the practical problems of this approach are obvious. The "diversity" argument transforms the potential beneficiaries of "affirmative action" from a distinct minority, which makes up about 12% of the population, into 30% (if you only include minorities) or two-thirds (if you include women, as many would

expect). And, of course, you need a small army of diversocrats to judge just how much “diversity” particular people will bring to America’s institutions.

This is not just wasteful and impractical but fundamentally illiberal. Why should ethnic categories that never made much sense in the first place (neither Latinos nor Asians constitute a “race” anywhere outside America), and which are becoming less relevant by the day, be accorded more importance than individuals? And the assumption that minorities will never succeed without special treatment is condescending and wrong. Indeed, the logic behind campus diversity is disturbingly similar to that behind racial profiling: you are identified by your group, not your character.

Over the past quarter-century, affirmative action has helped many people. Now it is mutating into a monster that perpetuates the very problems that it was designed to solve. It is no coincidence that California, the most ethnically diverse big state in the country, was the first to take the third option—scrapping it. The new census is a prompt for others to follow.

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Letters

Mar 15th 2001
From The Economist print edition

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Displaced persons

SIR—Greater attention to the desperate plight of the world's internally displaced persons (IDPS) is indeed long overdue and urgently required ("When is a refugee not a refugee?", March 3rd). For precisely this reason, your suggestion that "the outside world...has no duty to take action" to address their plight must be challenged.

It is true that IDPS fall outside the definition of "refugee" and, consequently, the ambit of refugee law. However, to say that they "are not the concern of international law" overlooks the relevance of international human-rights law and, in situations of armed conflict, of international humanitarian law. Were governments and other groups to respect their obligations under these bodies of law (brought together in 1998 in the "Guiding Principles on Internal Displacement"), IDPS would be far better protected and assisted. When governments prove unable or unwilling to protect and assist their internally displaced and other civilian populations, this responsibility necessarily falls to the international community. While the international community has, in recent years, come to recognise its responsibility towards the internally displaced, responses have remained selective, ad hoc and inadequate, especially in the area of protection.

Efforts currently underway to improve the international response will need to address these problems, and require support. However, encouraging western countries to support such efforts with the intention of "containing people within their borders" betrays two of your other points: that refugees and IDPS are forced or obliged to flee, and that they have a right, enshrined in international law, to seek asylum in other countries when unable to obtain protection within the borders of their own state, even despite the international community's best efforts. An IDP is not a refugee, however, but still has a right to seek to become one.

ERIN MOONEY
Special adviser to the representative of the
UN secretary-general on IDPS
Geneva

SIR—You forecast a rise in numbers of IDPs and also correctly point out that not enough is being done for these people, essentially refugees who have not crossed an international border. As an organisation of nation states the UN approaches most issues from the standpoint of state sovereignty. Borders will, therefore, continue to be a stumbling block for any international assistance to the fastest-growing number of war-affected people in the world. While many non-governmental organisations have expanded their missions to assist these war-affected civilians, the lack of attention will only continue unless there is effective multilateral political will.

KENNETH BACON
President and CEO, Refugees International
Washington, DC

Lobby correspondent

SIR—Given that China has the world's longest bureaucratic tradition, one should be surprised if it did not have the longest lobbying tradition ("Gentle art of lobbying in China", February 17th). A reference by a great Han dynasty historian, Sima Qian, indicates that lobbying feudal lords was an accepted livelihood at the dawn of that era.

WILLIAM HOLMES
Ashfield, Massachusetts

Eurocratic elite

SIR—By default rather than design, the European Schools, which you describe as “elite schools to which Eurobrats have privileged access”, seek to replicate the academic education available in the systems of EU member states (Charlemagne, March 3rd). In doing so, and despite the best efforts of parents and teachers, they fail to cater for the long-term educational needs of those children not destined to follow the academic path. EU national systems provide, to a greater or lesser degree, for the full range of educational needs. But EU officials whose children do not fit into the available system are left to make their own arrangements far away from these national systems.

I, and many of my colleagues, can live with the label “Eurocrat”. It is objectionable, however, to describe our kids as “Eurobrats”. Such an attack on those who cannot defend themselves is unacceptable. Leave our kids out of it. Most of them are not yet old enough to cancel their subscriptions to your newspaper.

NEIL USHER
Moutfort, Luxembourg

SIR—I was disappointed to see that you so readily jump on the bandwagon in criticising the pay and conditions offered to European Commission officials. As a lawyer, I regularly represent my clients in competition investigations and merger cases in front of the commission. An official dealing with high-profile merger cases will work long hours to meet the tight deadlines imposed by the regulation. He will be paid more than a civil servant in his home country but only a fraction of what he could earn in the private sector. Inevitably, many are tempted away. Adding on Belgian taxes may make it impossible to recruit the quality of staff the commission needs and would result in a transfer of European taxpayers’ money to an entity that is least deserving of it: the Belgian state.

OLIVER BRETZ
New York

Bush and tax

SIR—You repeat a common misconception that Hernan Cortes burned his ships (“Gambling man”, March 3rd). In fact, he had holes bored through the hulls to render them unseaworthy. However, he may, as you say, serve as the Bush administration’s “economic role-model”.

Cortes had his dirty work done by others in the dead of night, and then blamed the holes on worms (the Clintons, perhaps). He put up a loyal faction of his men to demand publicly that he not allow the other half (who thought his plans lunacy) to pack it in, so that he could appear to acquiesce to the public will. And the real reason for all these machinations was probably not the noble goal of stiffening his men’s backs to subdue the heathens but to ensure that, if things went wrong and the ships’ owners demanded compensation, the blame, and the costs, would be spread among the “common folk” in the expedition rather than falling upon Cortes. Of course, Cortes was vindicated by finding and conquering the greatest source of gold ever discovered up to that time; virtually none of it “trickled down” to the common soldiers.

ERIC SCHNURER
West Chester, Pennsylvania

SIR—You assert that America’s inheritance tax “affects only the rich”. Having just mailed off the 8mm-thick inheritance-tax filing for my late wife’s estate, I dispute that assertion. Anybody with the mental capacity sufficient to read your newspaper could tell by glancing at approximate figures that the tax due would be zero, as indeed it was. So one might argue that I was not “affected”.

Nevertheless, the law requires exact numbers and exhaustive documentation. My professional tax specialist worked so long and hard that her bill for $2,200 seemed very reasonable. Add to that the $350 fee for professional appraisal of our house, the $221 for specialised help from an expert accountant and the hours spent on minutiae like cataloguing household furniture, estimating the value of used dresses, determining when my beloved “established legal residence” in our state and getting an estimate of the resale value of my battered pickup truck. Now consider that this trouble and expense lands on me in the

depths of grief while I frantically learn to run a household with three children, and tell me: have I not been “affected”?

PETER PEARSON
Livermore, California

The meter’s running

SIR—Persuading the public to accept real-time metering may be the least of the energy regulator’s worries (“Beyond the pool”, March 3rd). The introduction of the New Electricity Trading Arrangements (NETA) in Britain will allow electricity generators to offer prices for balancing energy right up to real time. Gas-fired generators will choose between offering electricity or selling their gas to the gas-balancing market, which prices on a daily average basis. If electricity prices are volatile, they will not be bidding much before real time—and if they do not, prices will be volatile.

In addition, generators will in effect withdraw significant power from competition by selling bilateral power to their own (ever growing) supply businesses. Add to this the removal of the regulator’s market-abuse licence condition after the findings of the Competition Commission report and we should be in for some interesting times after the opening of NETA.

DAVID EASTWOOD
Worcester

Farming subsidies

SIR—In your article on European agriculture you say that the EU has gradually reduced the sum of money going towards market-distorting price supports, and 65% of subsidies nowadays “go straight to farmers” (“From bad to worse, down on the farm”, March 3rd). I am not sure how that percentage is derived, but OECD data show that in the 1986-88 and 1997-99 periods, support to EU farmers remained unchanged on average, accounting for 44% of farm receipts. In the earlier period, 85% of that support was due to policies that kept European farm prices above those on the world market; this share has currently fallen to 60%. The remaining 40% of support is made up of budgetary payments and input subsidies, which have varying effects on production and trade—although price support is the most “market-distorting” policy.

The next report on OECD agricultural policies—which will include data for 2000—will be released at the end of April 2001. It is expected to show a further decrease in the relative importance of price support.

GÉRARD VIATTE
Director for food, agriculture and fisheries, OECD
Paris

Credit for Michelin

SIR—A company (Michelin) which is well run, profitable and brings its shareholders a strong and regular dividend fails to qualify as an example of good corporate governance (“Where’s the Michelin woman?”, February 17th). A bank that is still around only thanks to taxpayers’ money and is embroiled in murky financial dealings in America (Crédit Lyonnais) passes with flying colours. Am I missing something ?

JEAN DOUBLET
Chevy Chase, Maryland

A case for Falun Gong

SIR—In your otherwise objective article on Falun Gong (“Protests in Tiananmen Square”, January 27th) you say that it is “a cult ...that combines meditative exercise with a loony, millenarian outlook.” This plays into the hand of a massive international smear campaign in which the Chinese government is engaged in its ruthless suppression of a non-violent and non-political movement. Falun Gong is currently subjected to the most extensive campaign in history against the human rights of innocent citizens through the use of torture, labour camps, mental hospitalisation, etc. Falun Gong prescribes truthfulness, compassion and forbearance on traditional Buddhist lines, as well as good citizenship and honest work. There is no exploitative and egomaniacal leadership or structure, and financial contributions are refused.

The UN Human Rights Commission is debating a draft resolution beginning on March 23rd in protest at the Chinese government's actions. I hope this helps counter misconceptions about a movement which promotes desirable trends in modern China for the benefit of the population and, incidentally, the West.

LORD THURLOW
London

Censor and sensibility

SIR—It seems that the "old Kuwait" is not aware of the capabilities of the Internet. Your article ("Welcome to the old Kuwait", March 3rd) has been torn out from all copies of *The Economist* in Kuwait by censors of the Ministry of Information. In the age of the Internet such futile attempts to suppress information are more embarrassing to the inept censor than a hindrance to the censored.

IBRAHIM ALADWANI
Kuwait

What SAT?

SIR—Lexington (February 24th) misses a major point of the proposal of Richard Atkinson, president of the University of California, to stop using the SAT test for admission. The proposal was to stop using SAT 1 but continue using SAT 2. The former is an aptitude test; the latter a set of achievement tests.

Many studies—including one I published with Frank Norman in 1992—show that SAT 1 is almost useless once SAT 2 is in hand.SAT 1 is, it seems, a relatively poor test at predicting college achievement. SAT 2 is better, and essentially tells us everything that such testing can tell us. The newer test is also more expensive, which is why some colleges in America require only SAT 1. Moreover, as Mr Atkinson points out, SAT 2 encourages high-school students to master their academic work. SAT 1 encourages them to study to outwit the test; a waste of time.

I headed a committee that recommended dropping SAT 1 at the University of Pennsylvania, in 1992. The recommendation was not followed. Apparently, colleges fear that it would look like a lowering of standards, even though it is not. Perhaps Mr Atkinson's bold proposal will give courage to others. As for racial discrimination, there is some evidence that under-represented minorities do worse on SAT 1 than on SAT 2, so Mr Atkinson's scheme might end up admitting more minorities, but not because they do not deserve admission on the basis of purely meritocratic criteria.

JONATHAN BARON
University of Pennsylvania
Philadelphia

Unsanctioned

SIR—Some of your suggestions for reforming the Iraq sanctions regime ("In search of an Iraqi policy", February 24th) mirror the recommendations that Human Rights Watch made to the UN Security Council in January 2000. Strangling Iraq's economy as a means of effecting military containment has created a public-health emergency and an unacceptable level of civilian suffering. Restrictions on non-military commercial and financial transactions should be lifted. A points-of-entry monitoring mechanism not dependent on Iraqi co-operation should be set up to prevent Iraq's import of military goods and technology, as well as dual-use items not licensed by the UN.

Our additional recommendation is to set up an international criminal tribunal to indict and try Iraqi leaders responsible for well-documented war crimes, genocide and crimes against humanity. Even if the apprehension of Saddam Hussein and his top henchmen is not likely in the near future, such an initiative can ensure that lifting non-military sanctions will not mean a return to "business as usual".

JOE STORK
Human Rights Watch
Washington, DC

Cynical and calculating

SIR—While I cannot claim so profound a grasp of the classics as Bagehot (February 24th), I must surely call into question that a modern cynic has “a couple of hundred extra centuries of data to go on” more than Antisthenes and his followers. I would have thought that 20 centuries might be nearer the mark.

PETER WHITELAW
Richmond, Surrey

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The uneasy triangle

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From The Economist print edition

The rise of China, the weakness of Japan, and a new spirit of robustness in Washington are prompting new tensions among the Pacific's three great powers

MARCH is Asia month in Washington. Last week, South Korea's president, Kim Dae Jung, paid a visit, and this weekend one of China's most senior officials, Qian Qichen, flies there for what will almost certainly be the highest-level contact between America and China until late this year. Mr Qian, who is now a deputy prime minister, served for many years as China's foreign minister, and now oversees his country's relations with the outside world and its policy towards Taiwan. In the course of a week he will see everyone in Washington who matters to China, from the president down.

Yet already there is awkwardness. Japan's prime minister, Yoshiro Mori, will also be in town. Although he is so deeply unpopular at home that he will soon step down after barely a year in office, Mr Mori is nevertheless being whisked over, at American insistence, so that he can visit the White House ahead of Mr Qian. This will underline to the Chinese that the new administration is serious about tilting its priorities away from China and back towards its old ally, Japan.

It is a delicate moment. Less than two months into the job, the new American administration is still reviewing its Asia policies from top to bottom. The balance between moderates like Colin Powell, the secretary of state, and hawks—his own deputy, Richard Armitage, Donald Rumsfeld, the defence secretary, and Condoleezza Rice, the national security adviser—has yet to be struck. Not least, nobody knows how President George Bush's mind works on the subject.

During the presidential election campaign Mr Bush made much political capital out of the Clinton administration's friendliness with China, encapsulated in the phrase "strategic partnership". The idea, first expressed by Bill Clinton and Jiang Zemin, China's president, at their 1997 Washington summit, was developed a year later when Mr Clinton went to China, the first visit by an American president since the Tiananmen massacre in 1989. Mr Bush has rejected the term; instead, he describes China as a "strategic competitor".

More aggressive attitudes

The president has yet to spell out precisely what that phrase means. Looked at one way, it is a statement of the obvious. America and China have a raft of deep disagreements on, among other things, Taiwan, human rights, intervention, missile defence and the stealing of nuclear secrets. Although they share some interests, including an aversion to fundamentalist Islam and, increasingly, a commitment to free trade, on most strategic issues China and America are still on opposite sides. To talk of “strategic partnership”, on this interpretation, is misleading at best, dangerous at worst. Mr Bush’s phrasing could be nothing more than a useful rhetorical corrective.

Or does something more substantial lie behind it? The use of a loaded term like “competitor” can, after all, be self-fulfilling, and there have always been powerful lobbies, both in China and America, which believe that the two countries are destined to be enemies, perhaps even to fight. Over the past two decades, China’s relations with America have seen some warm spells and many icy patches. Tiananmen marked the coolest point, but there have been others: in 1993, when China blamed America for its failure to win the 2000 Olympics; in 1996, when China lobbed missiles close to Taiwan and America sent two aircraft-carrier battle groups to signal its concern; and in 1999, when NATO aircraft bombed China’s embassy in Belgrade. Could Chinese-American relations be heading for another freeze?

There is some reason to think so, reckons David Shambaugh, a professor at George Washington University. He foresees, within the next few months, a series of spats between the world’s most powerful nation and the one that aims to succeed it. “This is a government with a very different view of China,” he says. “It sees China as a rising power that needs to be bounded and checked.”

In recent days, that assessment has seemed shrewd. On March 6th, China announced an increase of 18% in its defence budget, the biggest for 20 years. This shattered the target set by the five-year plan that has just expired, which called for increases in real terms of 10% year-on-year. Boosts of that size were already quite enough to worry China’s neighbours, especially Taiwan, which knows that most of China’s new weapons will point in its direction.

Other rumblings have also been heard. In its most recent defence white paper, published last October, China clearly identified America as its principal threat. The deputy chief of staff of the Chinese army has given warning since then that “the forces of war, hegemony and power-politics are increasing”. In July, China and Russia are expected to sign a Treaty of Friendship, partly to thumb their noses at America: it will be their first since the Sino-Soviet split in the late 1950s. China constantly tries to keep America out of regional forums by supporting Asian groupings, which exclude it, rather than pan-Pacific ones. It has even set up its own version of Davos, at Boao on Hainan island. No Americans were invited.

China, of course, argues that it is merely responding to American assertiveness—as shown in the Kosovo war, or in recent American defence accords with Mongolia and Kazakhstan, or by the plans to construct a national missile defence (NMD). China fears NMD is squarely aimed at its own limited nuclear arsenal of about 25 missiles, which it has hinted it could use against Los Angeles if America attempted to frustrate an invasion of Taiwan. But to many in Washington and East Asia, China’s spending plans smack of escalation. It is against this prickly background that Mr Qian is going to Washington.

The first public row has already occurred, with America’s announcement that it will sponsor a UN resolution later this month condemning China’s record on human rights. The second may come during Mr Qian’s visit. He wants to secure a state visit by Mr Bush, either before or after the Shanghai meeting of APEC, the 21-nation Asia-Pacific Economic Co-operation group, which is likely to be the first occasion on which Mr Bush and Mr Jiang will meet. APEC is not until November, but Mr Bush will not have completed the rounds of his allies by then, and China will probably be told to wait. This will be taken as a serious snub.

Other irritants are on the way, such as the fury China will vent on America if Beijing fails to win the 2008 Olympics, or the stormy congressional debate over China’s most-favoured-nation trading status (MFN), which is due in May. Despite the agreement on permanent normal trading relations (PNTR) that was passed last year, the annual MFN squabble will not go away until China joins the World Trade Organisation.

The Taiwan question

According to Joseph Nye, an old China hand who is also the dean of the Kennedy School at Harvard, these problems ought to be manageable. Mr Nye notes that, so far at least, the disagreements have been rhetorical rather than practical, and that there have been emollient as well as abrasive remarks. For

instance, Mr Powell went out of his way to stress America's adherence to the "one China" principle, which rules out American recognition of Taiwan. He, and other senior officials, including the vice-president, have insisted that China, though it may be a competitor, is not an adversary, and must not be allowed to become one.

Yet Taiwan is not so easily dealt with. Every April, in line with the 1979 Taiwan Relations Act, the administration announces how it plans to supply Taiwan with the weapons it needs to defend itself. Now that China is vigorously building up its forces, Taiwan wants more and better. It can point in particular to China's deployment of M-9 and M-11 short-range ballistic missiles on the Fujian coast (300 now, compared with about 20 a decade ago); to the stationing in Fujian of squadrons of SU-27 Russian-built fighters; and to China's acquisition of Russian Sovremennyy-class destroyers.

This year, Taiwan wants PAC-3 upgraded Patriot anti-missile systems, the JTIDS datalink system to tie its F-16 fighters to its airborne early-warning Hawkeyes, and Kidd-class destroyers with advanced ship-to-air missiles. Above all, it wants Arleigh Burke-class destroyers fitted with Aegis, a battle-management system that picks up incoming ballistic missiles, ships and planes and can track more than 100 targets simultaneously. China, thinks Paul Beaver of the Jane's defence group, would see this as a big step towards setting up a theatre missile defence for Taiwan, perhaps even as a pledge to defend Taiwan in the event of an invasion. China has never ruled out such an invasion as a way of "reunifying" its divided territory. America could not risk letting any of its prize equipment fall into Chinese hands.

What will Taiwan actually get? There is clearly pressure from the Republican right in Congress, as well as the China hawks in the administration, to reverse Mr Clinton's tendency to deny Taiwan the most advanced weaponry for fear of damaging relations with the mainland. Henry Hyde, the Republican who chairs the House International Relations Committee, has already said that "long-delayed arms sales will be approved" this time. One insider goes further: "China is going to be very upset," he says.

Taiwan still looks unlikely to get the Arleigh Burkes: but it will probably be given a package of hardware which offers some of the same capabilities, and which will involve America in much more training of, and help for, Taiwan's armed forces. That, it is said, will be the price for Congress withdrawing the proposed Taiwan Security Enhancement Act, which seeks to make the defence ties even tighter. "The idea is that the administration will implement the act by executive action," says one source. Another possibility, says Bates Gill of the Brookings Institution in Washington, is that Mr Qian will politely be told that if China continues the build-up on its side of the Taiwan Strait, America will consider itself free to supply Taiwan with Aegis.

How serious a threat?

China's figures for defence spending seriously underestimate the reality. They exclude army pensions, the cost of running the 600,000-strong People's Armed Police (un-bobbyishly armed with tanks and artillery), and military R&D. The official figure, now raised to $17.2 billion, probably needs to be multiplied by at least three. China's military budget is already comparable to Japan's, and is rising much faster.

But China has to stretch its money much further than Japan does, not least to the Indian border. India's defence minister cites China, not Pakistan, as India's number-one enemy: a reminder of the fact that China has no allies, and almost no friends. The bulk of China's defence budget will go on increased salaries, leaving perhaps $1 billion a year that can be spent on foreign equipment.

Taiwan, though, can afford to spend at least twice that, although there are concerns about its ability to use what it has already acquired. The Taiwanese air force has crashed several of its new F-16s, and needs more practice at submarine-hunting and blockade-breaking with its American destroyers and frigates. But the International Institute for Strategic Studies in London reckons the Chinese air force and army are much less well-trained; China's pilots get few flying hours over water, for fear they will defect.

Most analysts believe that Taiwan could easily repel a full-scale invasion, even without American help. Missile attacks, however, are another matter. Nothing the Taiwanese can get from America would completely eliminate that threat. China has mostly refrained from sabre-rattling since the election last year of Taiwan's new president, Chen Shui-bian, whose party has always inclined towards Taiwanese independence. But recently there have been growing signs of Chinese irritation at the slow pace of progress towards talks about reunification.

The Japan card

The flip side of Mr Bush's "strategic competition" with China is a proposed new closeness to Japan. But this, too, is fraught with difficulties. It is not at all certain that Japan is able to take the strain, or even that it is really willing to try.

Not that the attention is wholly unwelcome. Japan has been smarting for the past few years at what it sees as serious American neglect. Officials were especially disappointed with Mr Clinton's second term in office. When not haranguing the Japanese for economic mismanagement, protectionism or aggravating Asia's economic problems, the Clinton administration was looking past Japan to its new strategic partner, China. In June and July 1998, Mr Clinton spent more than a week there without stopping off to brief the Japanese, the sort of insult not easily forgotten. China received far more praise from the Americans for trying to stem the Asian financial crisis of 1997-98 than Japan did, though Japan spent far more.

No one can accuse Mr Bush of being neglectful. His administration is peppered with Japan experts, such as Mr Armitage at the State Department, Mr Bush's economic adviser, Larry Lindsey, Torkel Patterson, an adviser on Asia to Ms Rice, and Jim Kelly, who will handle East Asia for Mr Powell. Under Mr Armitage's influence, their inclination is for a much closer relationship with Japan, based on a more effective military alliance.

This echoes long-standing American calls for Japan to shoulder more of the defence burden in Asia, where America maintains 100,000 troops. Just over 40,000 of these, the largest share, are in Japan. They are heavily concentrated in Okinawa, where they serve as a focus for much anti-American protest.

Mr Armitage particularly wants Japan to revise its constitution, which renounces war, in order to play a more active role in collective self-defence. He argued this in a bipartisan paper last year, written with Mr Nye (published by the National Institute for Strategic Studies), which is now taken in Asia as a portent of things to come. Strikingly, it warns that "major war in Europe is inconceivable for at least a generation, but the prospects for conflict in Asia are far from remote." The aim of the Japan-firsters is nothing less than to turn Japan into an Asian equivalent of Britain: America's most dependable ally and closest associate in a whole region.

This is not the first time the policy has been tried. It was attempted in Ronald Reagan's second term, but little came of it. George Bush senior attempted a "global partnership" with Japan, which fizzled out in the Gulf war. Mr Clinton's 1996 joint declaration on security with Japan, before he began the tilt towards China that culminated in his trip to Tiananmen Square, yielded a new set of defence guidelines that

tightened American-Japanese co-operation a bit. But it could not hide the awkward fact that, if America finds itself fighting over Taiwan or South Korea, Japan's 60 destroyers and its 200 or so fighter planes will be constitutionally required to stand idle. It is not even completely certain, some analysts worry, that Japan will allow America to use its own Japanese bases.

Mr Bush's latest overtures have had a cold reception in Japan. Neglect may be bad, but so is American overfriendliness, especially when Japan is already on edgy terms with China. Chinese posturing in the South China sea, a still-unresolved dispute over the Senkaku islands, a mysterious spate of Chinese naval incursions into Japan's waters, and Japanese resentment at China's alleged lack of gratitude for aid money have added to the unease. Meanwhile, Japan's growing bilateral trade deficit, a historically unprecedented level of unemployment and perennially low growth are fanning a chauvinistic nationalism. China is regularly lashed by conservative Japanese politicians such as Tokyo's governor, Shintaro Ishihara.

Japanese diplomats also recall that the last time America tried to improve its relations with Japan, in May 1996, China's reaction was volcanic. Japan sees no sense in making an enemy out of its giant neighbour, as America, from a safer distance, sometimes seems inclined to. It is the volatility of America's relations with China that upsets the Japanese most. "The nightmare for Japan is a deterioration in relations between China and America," notes Yoichi Funabashi, a leading commentator. "Then we would be forced to choose. America's Japan-first policy is not at all what we want. It broke down before. Japan cannot endure such pressure."

Still, there is some shift. Ten years ago, even the mention of constitutional reform was taboo. Now, a parliamentary panel has begun to prepare some of the groundwork, although its work is likely to take many years. Signs of a new national assertiveness are everywhere: in 1999, for instance, the government gave official standing to the national flag and anthem. A growing number of people want Japan to become a "normal" country, free from the restraints that have made it, since the war, such a passive figure on the world stage.

But whether this really adds up to a confident, outward-looking Japan, politically and economically ready to play a more active role alongside America in Asia, is another matter. For a start, no one in Japan has much time for foreign-policy objectives just now. The economy, having only just clawed its way up from recession, is back on the brink. The stockmarket is at a 16-year low; the finance minister speaks of "collapse". The ruling Liberal Democratic Party is weaker than ever. It is looking for a new leader, its ninth in ten years, and many, even within the party itself, believe it is only an election away from political oblivion.

The danger with a Japan-first policy is that Mr Bush, like so many of his predecessors, will soon grow frustrated with the limitations imposed by Japan's domestic politics. That has always been the pattern in the past. Another striking pattern is that new presidents all begin by talking tough about China, and all end up mesmerised by the dragon. Mr Clinton, after all, came into office promising to end his predecessor's policy of "coddling dictators". Yet he ended up in "strategic partnership" with them, and snubbing Japan. It would be no surprise to see that happen again.

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Primary colours

Mar 15th 2001 | WASHINGTON,DC
From The Economist print edition

The new census figures show America absorbing the most profound change in its racial and cultural make-up in a century, but barriers still exist

WHITE, black, red, yellow, brown or a mix of them all, every colour of American is thriving. That was the Census Bureau's message this week as it released details on race from last year's national headcount. Every racial or ethnic group, including the white majority, is growing larger.

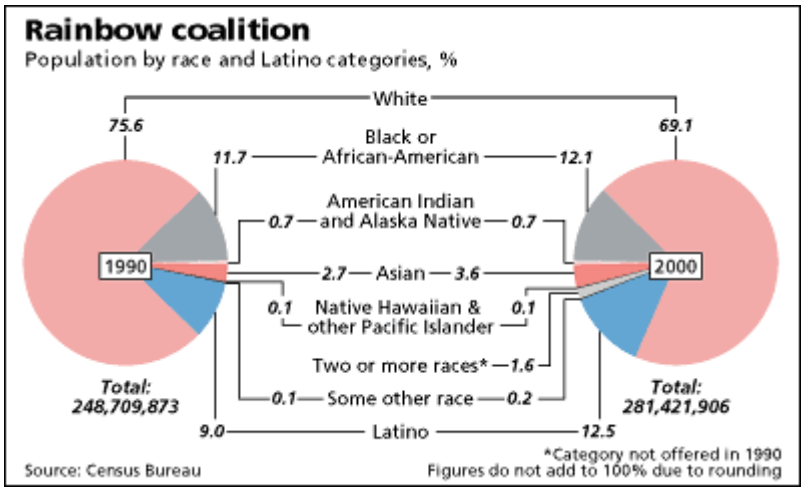
Last year's snapshot shows 281.4m people inside America's borders, whether legally or not: 13% more than a decade earlier. Some 211m of them say they are white, a rise of 12m, but a slightly lower share of the total than last time. The white share is dipping as other groups grow faster, thanks to immigration and to higher birth rates.

Latinos have made most gains. That group has soared to 35.3m people, and for the first time is roughly as large as the black total. Although no one doubted blacks would eventually lose their spot as America's top minority, few thought it would happen quite so soon. By the next census, Latinos could well be several million people ahead.

Some blacks have reacted defensively. The growth, they say, is explained by a re-ordering of questions on the census form that put the Latino choice higher up. The Latino trend will be less pronounced next time, because this census caught many people who were missed in the past. Most important, the powers that be have decided that the term Latino is not racial, but ethnic. So anybody who chose to put down "Hispanic or Latino", also had to pick a race. Half chose white; most of the rest chose a category called "some other race". (One price of this absurd piece of political correctness is that very few of the figures in the Census add up.)

The black population saw a hefty increase in numbers, partly because of a campaign by minority groups to get more people to send back their census forms. An estimated 3.3m people were still missed, most of them from minority groups. But the Census Bureau and the government have failed to find a satisfactory method to make good the "undercount".

Other, smaller groups appear to have grown even more. The total for native Americans rose by more than a quarter, Asians by nearly a half and "other races" by more than a half. Add in the 7m (2.4% of the total) people who were allowed for the first time to identify with two or more racial groups (for example both Asian and white), and the increases are even more striking.



This new option was taken up most eagerly by young people, who are more likely to have parents of mixed race and are more likely to be relaxed about admitting it. They may also be swung by the "Dances with Wolves" phenomenon: aspiring to have some interesting warrior ancestors.

The Census Bureau predicts that there will be many more mixed-race people in the future. "These small but significant numbers point to where we are going," says Gregory Rodriguez of the New America Foundation in Washington, DC. "Those born now will be farther away from the time of segregation, kids will feel less bound by ethnicities. America is diversifying." As generations pass through mixed colleges and marry across racial lines, black and white America may give way to a blend of browns.

What does this melting pot amount to? Well, a lot—if you set modern multicultural America down alongside either Europe, which seems to be running out of people, or the 1960s "Guess who's coming to dinner?" America, which was basically a black-and-white affair. A possible 63 combinations of race (rising to 126 permutations if you add in the Latino option) were available on the census form, up from just six in the past. If you believe that competitive advantage is wrapped up in human capital, then the change in America's people will surely affect its future far more than a mere device such as the Internet.

On the other hand, it is possible to exaggerate just how quickly the melting pot is cooking this stew. William Frey, a demographer at the University of Michigan, applauds as democratic the fact that Americans can "write down who they think they are", but he insists that separation between races remains the norm. The census seems to back him up: 97% of Americans still describe themselves as belonging to just one race.

Separate tables

The blending is less evident when you look below the national level. Mr Frey points out that "there is no place in America that looks like the national picture." Some areas—usually big cities—get many immigrants. Others get almost none (indeed, some white suburbs are becoming whiter because of internal migration). And new immigrants tend to go where their own families or communities already are.

This picture may become more pronounced as census data for all the states is released over the next six weeks. But there are already disparities in the results released this week. In South Dakota, for example, more than 99% of people think of themselves as belonging to just one race, and almost all of them (91% of the total) are plain white. But Texas has shown rapid growth in the numbers of native Americans, Asians and Hispanics (of any race).

Even in the more diverse states, a closer analysis of who opted for the two-or-more-races option would be useful. Though it is true that more young people see themselves as mixed (nearly half of those who chose that category were under 18) that amounted to just 4.2% of young Americans. And, young or not, they were most likely to be Latinos. "So it just tells us that race is not so important to Hispanics," says Mr Frey. Though the Latinos may be showing the future, America isn't there yet.

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Jesse Jackson

Blessed are the tax collectors

Mar 15th 2001
From The Economist print edition

ALTHOUGH Jesse Jackson has never been one to shy away from the media spotlight, the glare on his financial dealings may be a little too bright for him. At best, Mr Jackson's organisations have done some sloppy book-keeping. At worst, they may have engaged in philanthropic strong-arming—threatening to boycott or derail a large company or business transaction, and then, after relenting, accepting a very large contribution from the firms in question.

Reuters

Not a great year

Mr Jackson presides over an empire of four interlocking non-profit organisations. The largest, the Citizenship Education Fund (CEF), has revenues of roughly $10m and is tax-exempt (which limits the scope of its activities). The next largest, with $5m in revenues, is the Rainbow/PUSH Coalition, which conducts non-profit civil-rights work, but is not tax-exempt. The two other arms are much smaller: PUSH for Excellence, a tax-exempt organisation that grants scholarships to students, and People United to Serve Humanity, a religious institution.

These organisations share office space, overheads, employees and some board members. Their finances are interwoven. For example, People United to Serve Humanity pays Mr Jackson's annual salary of $120,000, but is then reimbursed by Rainbow/PUSH (42%) and CEF (58%).

Mr Jackson's troubles began when he admitted to fathering a child with Karin Stanford, a former staff member. After it transpired that CEF paid Ms Stanford $35,000 in relocation expenses, the organisation gave conflicting explanations for the payoff. (Mr Jackson's chief financial officer, Billy Owens, now says that $15,000 was for moving expenses and $20,000 was an advance for work Ms Stanford has since completed for PUSH.) Now other questions are being asked:

• Mr Jackson used to be highly critical of Illinois's Republican governor, George Ryan, for failing to sign up eligible poor children for a public health-insurance programme. Last year, three weeks after the Rainbow/PUSH Coalition received a $763,000 contract, awarded without a bidding competition, from the state of Illinois to promote that programme, Mr Ryan was honoured with the Rainbow/PUSH Peace Prize. Mr Jackson says the governor earned the award for his heroic moratorium on the death penalty.

• Mr Jackson at first withheld support for several huge recent telecoms and media mergers, including SBC-Ameritech, CBS-Viacom, TCI-AT&T and GTE-Bell Atlantic, demanding that they do more for minorities. Eventually, he pronounced himself satisfied. Some of the largest pledges to CEF in 1999 were from SBC-Ameritech ($500,000), Viacom ($377,500), GTE ($625,000), Bell Atlantic ($375,000) and AT&T ($425,000).

Mr Jackson's approval of the SBC-Ameritech merger followed Ameritech's decision to sell part of its cellular-phone business to his friend, Chester Davenport. Mr Jackson also lobbied Viacom to sell its UPN television network to another friend (and CEF board member), Percy Sutton. Mr Jackson and his wife own shares in Mr Sutton's firm, Inner City Broadcasting, that may be worth $1m.

• Despite having no experience in the beer business, two of Mr Jackson's sons purchased a lucrative beer distributorship in 1998 from Anheuser-Busch, giving them a monopoly over the distribution of beers such as Budweiser to a large swathe of Chicago. Mr Jackson had boycotted Anheuser-Busch in the early 1980s.

• In its 1999 tax return, CEF reported that no employees earned more than $50,000. In fact at least five staff members, including the mother of Mr Jackson's child, earned that much or more. Mr Owens says

CEF will amend its 1999 tax return, and that he is examining the 1998 and 1997 returns for similar errors.

Jesse's rods

Mr Jackson's foes are now on the attack. The National Legal and Policy Centre, a conservative watchdog group, has filed a formal complaint with the Internal Revenue Service, claiming that the CEF has been operating outside its tax-exempt limits by facilitating business transactions. The group also alleges that Mr Jackson has used his non-profit organisations for personal benefit. "By threatening boycotts and opposition to corporate mergers, Jesse Jackson has extracted millions of dollars from corporate America."

Meanwhile, the American Conservative Union has filed a complaint with the Federal Election Commission alleging that Mr Jackson's get-out-the-vote effort in 2000 was partisan, and therefore in violation of federal campaign-finance laws. The Democratic National Committee reimbursed Mr Jackson's organisations for $450,000 in travel expenses last year.

Mr Jackson's people have produced a 102-page document that includes three years of tax returns for the CEF, but offers no such information for Rainbow/PUSH or Mr Jackson's other organisations. Mr Owens says such information is not likely to appear, since PUSH is a private organisation. Gathering and distributing such information is time-consuming and disruptive, he says. In the meantime, Mr Jackson has been blasting drug companies for the high price of AIDS drugs in Africa. Cynics will be looking for a quick retreat, followed by large contributions from the pharmaceutical industry.

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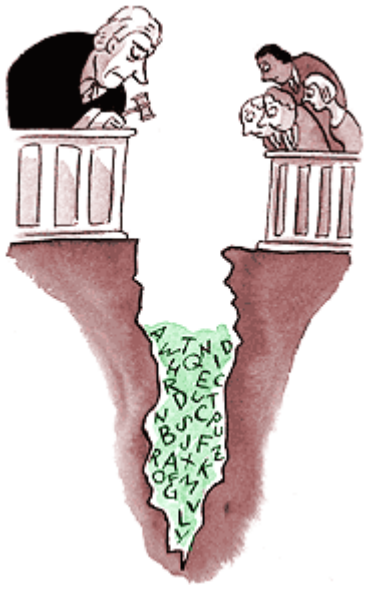
Legal language

Mind the gap

Mar 15th 2001
From The Economist print edition

Linguists say there is a worrying gap between the language of the public and that of the legal profession



DURING a murder trial in Virginia last year, the jury asked the judge to clarify its instructions on whether the defendant should be given life imprisonment or the death penalty. The judge referred the jury back to those instructions; it later decided on the death penalty and the defendant, Lonnie Weeks, has since been executed. But didn't the jury's question hint that it did not really understand the original instructions?

Linguistic scientists now claim that there is a worrying gap between the language of the American public and that of the legal profession. Indeed, even some lawyers have reached a determination or conclusion that they should credit the former elements of this evidence as being, beyond a reasonable doubt, true (ie, the linguists are right).

According to Peter Tiersma, a professor of law at Loyola Law School in Los Angeles, the jury in the Virginia case was not alone in its confusion: in a test, 40% of people reading those Virginia jury instructions were similarly baffled. The jurors did not realise that they were meant to consider any "mitigating evidence" for the murder, which would have meant that they could have called for a life sentence rather than the death penalty. That is not surprising: there was no mention of "mitigating evidence" (or anything similar) in Virginia's jury instructions.

Lawyers point back to a Supreme Court decision that such a meaning is actually implicit in the instructions. But the Court is composed of well-versed lawyers. In a presentation to the recent meeting of the American Association for the Advancement of Science, Mr Tiersma pointed out that juries have been caught looking up words in dictionaries (banned as an outside source), such as assault, battery, culpable, inference, insanity, legal cause, malice, motive, murder, negligent and premeditate. Even when they think they know the word, they can get it wrong: death-penalty jurors have confused "mitigation" with "aggravation".

Even good English-speakers might find it odd that jury instructions talk about extra penalties for defendants using a "dirk", simply because that word for knife appears in the statute. However, many jurors do not speak English well. California has just set up a task force, to which Mr Tiersma belongs, to put jury instructions into plainer language.

Lawyers fret that any attempt to put statutory terms into ordinary English could make retrials more likely. Against that, the present system does not help defendants, particularly ones with bad lawyers. And in death-penalty cases wrong convictions might be impossible to put right.

Police interrogations also follow linguistic guidelines about direct and indirect speech that seem odd and unreliable. Janet Ainsworth, previously a defence attorney and now an academic at the Seattle University School of Law, points out that, in order to get a lawyer, suspects have to use a "direct, unmediated and unhedged invocation", such as: "I want a lawyer and I won't talk to you without one." Any version using indirect speech, such as "Could I have a lawyer now if that is OK?" is technically invalid.

Decent cops presumably already follow the spirit of the law rather than the letter. However, Ms Ainsworth has more than 200 examples of situations where a suspect has lost the right to representation because of using indirect speech. Women and members of ethnic groups seem particularly likely to use "would" and "could" in speech.

Another problem: there appears to be some room for unscrupulous policemen to indulge in “linguistic coercion” to imply that a confession has been made. Roger Shuy, an emeritus professor of linguistics at Georgetown University, says this happened when Beverly Monroe, an organic chemist from Virginia, was interrogated as a murder suspect in 1992 following the death of her lover. The detective ignored her lack of agreement to statements such as “You were there when it happened”; he also interrupted her constantly and treated her disagreements as agreements. Ms Monroe was convicted.

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Correction: Dale Earnhardt

Mar 15th 2001
From The Economist print edition

In our article on Dale Earnhardt (“Pride of the South”, February 24th) we said the NASCAR driver owned three cars in the Daytona 500, including “one driven by himself”. In fact, the car that he raced was owned by Richard Childress, a local businessman.

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Grapeshot

Mar 15th 2001 | SAN FRANCISCO
From The Economist print edition

SOMETHING is stirring in the orange groves. After a winter spent nestled amid the citrus leaves, the glassy-winged sharpshooter, a half-inch-long insect with a yellow speckled head, is rousing itself to look for a meal and a mate. Its appetites spell trouble for California's vintners and their $2.8-billion-a-year industry.

The glassy-winged sharpshooter, a native of the south-eastern United States that was first spotted in California in 1990, is an eclectic eater that can consume ten times its own weight in an hour. But the problem is not what it takes when it eats, but what it leaves behind. The sharpshooter is a very effective transmitter of a bacterium, *Xylella fastidiosa*, that blocks the water vessels in plants, eventually killing them.

AP

Vineyard assassin

The bacterium affects numerous species, including many that thrive on California's farms, causing diseases such as almond leaf scorch, phoney peach disease, alfalfa dwarf, and oleander leaf scorch. Its most lethal impact, however, is on vines, where it causes Pierce's disease.

Pierce's disease has been around in California for a long time—it wiped out 40,000 acres of vines in Anaheim, south of Los Angeles, in the late 19th century. It is incurable, and kills vines within a year or two of transmission. It has generally caused little trouble this century because the main agent of transmission was a rather feeble insect, the blue-green sharpshooter, which cannot fly farther than three feet at a time.

That changed with the arrival of its more robust, glassy-winged cousin, which lays eggs twice a year and can fly up to a quarter of a mile. The pest now ranges across southern California, where it has already cost vine-growers in Temecula, east of Los Angeles, $40m. Now it is pushing northwards, towards the more extensive and classy wine-making regions of Napa and Sonoma.

To make matters worse, the sharpshooter is stirring up a nasty trade fight. Australia, where vineyards are free of both Pierce's disease and sharpshooters, is worried that the bug and its lethal cargo will stow away in a shipment of table grapes from California and, for the time being, has banned imports. America, which claims it can keep the grapes safe, may take the matter up with the World Trade Organisation.

California has raised $18m to fight the threat. A state task-force has been at work on it for the past 18 months. And last month the new director of the drive against Pierce's disease led a delegation to Washington to drum up more federal support, on top of the $22m allocated by the government last June to supplement local efforts.

Most of the money is being spent on research at California's numerous universities, where the sharpshooter, the bacterium and the plants that harbour it are being probed for weak links in the chain of transmission. Pesticide works, but is unpopular anywhere near people. Scientists at the University of California at Riverside, near the first irruption of the sharpshooter, have high hopes of defeating their enemy by dispersing a tiny stingerless wasp from Mexico that lays its eggs inside the eggs of sharpshooters.

The greater hope is to breed immunity into vines by genetic engineering. That will take years, if it is possible at all. At the rate the sharpshooter is advancing northwards, farmers may find themselves resorting to tall fences long before then. Glassy-winged sharpshooters fly far, but not high—early experiments suggest that they rarely fly more than 16 feet above the ground.

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The national debt

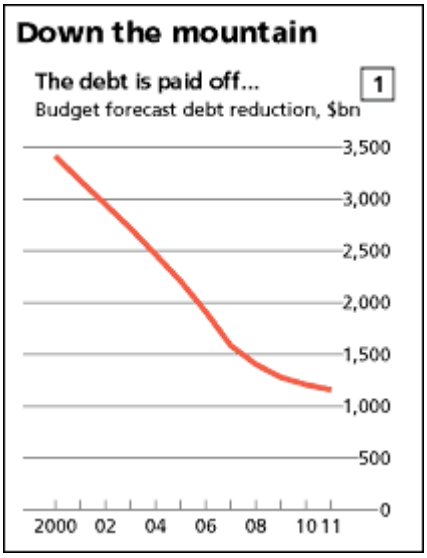
Imagine if it disappeared

Mar 15th 2001 | WASHINGTON, DC
From The Economist print edition

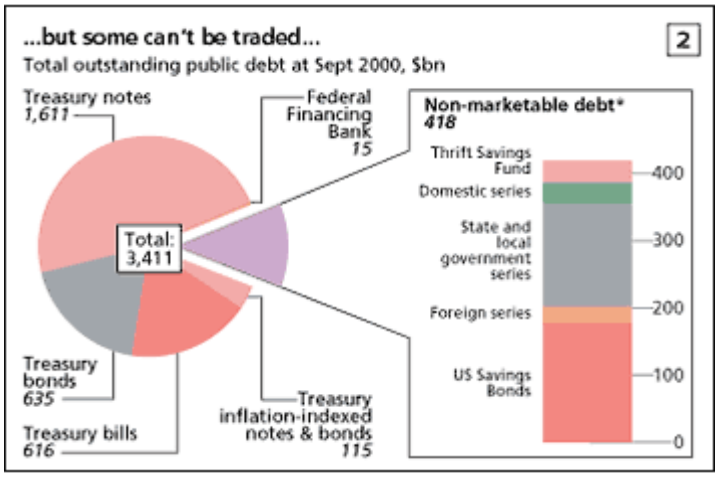
Politicians are eyeing up a sacred cow: paying down the national debt

THANKS to three years of budget surpluses, the Treasury has paid down $363 billion of its $3.4 trillion publicly held debt since 1997, $223 billion last year alone. That policy commands the sort of support that usually occurs only in time of war. The two parties vie with one another to put ever more items of budget spending "off limits" so that the surplus can be used to pay down debt as fast as possible. Alan Greenspan, the chairman of the Federal Reserve Board, has framed the terms of the debate through his repeated assertions that paying down debt should take precedence over tax cuts or (horrors) spending increases.

But now politicians are testing how far this commitment should take them—and even what exactly it means. Their debates are largely technical but the implications are not. They raise the prospect that the federal government will end up owning substantial amounts of private assets. They reveal, albeit in rudimentary form, sharply different approaches to the question of how to reform the Social Security (pensions) system. And they touch on matters such as the Fed's conduct of monetary policy, and what happens if the government does not provide a benchmark instrument to the capital markets.



These issues all start with a single figure. Last month George Bush told Congress that his administration would pay off as much of the public debt as it could, which meant paying off just over $2 trillion over the next ten years (see chart 1). The rest—the irreducible minimum—he said was $1.15 trillion. The figure is not zero because there are two categories of debt that cannot—or cannot easily—be retired. So-called "non marketable" debts, such as savings bonds and bonds owned by foreign governments cannot be bought back. There are roughly $400 billion of these (see chart 2). Then there are $500 billion of debts that mature after 2011 which cannot be bought back before then without incurring "penalty premiums" (see chart 3, further down the page).



The last president to face a similar situation, Grover Cleveland, nicely expressed the problem. "It should be borne in mind", he told Congress in 1887, "that premiums must of course be paid upon such purchase, that there may be a large part of these bonds held as investments which cannot be purchased at any price and that holders who are willing to sell may unreasonably enhance the cost of such bonds to

the government."

Mr Bush's estimate was something of a guess, since no one really knows whether holders of some debts would be willing to sell and at what price. But the figure of $1.15 trillion is within the usual range of estimates and is comparable to the Clinton administration's figure of $1.23 trillion in its last budget. The figure is also politically important because it enables Mr Bush to argue that he will pay down every dollar of debt that he can and still have money left over for $1.6 trillion of tax cuts and $800m for a contingency reserve. But what if the figure is wrong and more debt could be paid down?

The same day as the president's speech to Congress, Gary Gensler, Bill Clinton's under-secretary for domestic finance at the Treasury, argued exactly that. In a letter to the ranking Democrat on the House budget committee, he reckoned that the irreducible debt was only $410 billion-500 billion. If true, and if Mr Bush were to keep his word to pay off all the debt he could, either tax cuts would have to be less or the contingency reserve would be almost wiped out.

Mr Gensler looked in detail at three components of the irreducible minimum. First, he argued, the administration is under-estimating the amount of late-maturing debt that it can buy back without penalty, based partly on the debt retirement programme so far, which has not incurred penalties.

Second, he disputed the idea that the Treasury would have to issue some new debt during the period when it was buying back the old one. The administration argues this will be needed to keep a balanced portfolio of debts of different maturities. But the Treasury's group of Wall Street experts, the Borrowing Advisory Committee, this year voted to get rid of the 30-year bond.

Third, he argued that around half of the "non-marketable" debt is actually marketable (that is, it could be bought). A large part of this comes in the form of holdings by state and local governments who, when they have excess money they cannot immediately use, put it in Treasury securities as a safe harbour. Mr Gensler says they do not need to do that.

Given the uncertainties of forecasting the economy over ten years, the actual dollar difference between Mr Gensler's $500 billion and Mr Bush's $1.15 trillion is less important than their underlying difference of policy. The administration (supported by Mr Greenspan) says it is desirable to keep things like the operations for state and local governments. Mr Gensler's much lower number is what you get if you make other policy aims secondary to debt repayment.

You can see the significance of this difference by looking at Social Security. In the next ten years $2.6 trillion will accumulate in the trust fund of the Social Security system. Mr Bush says he will use just over $2 trillion of that to pay down debt. The remaining $600 billion will be kept for Social Security. Unlike Mr Clinton, Mr Bush is questioning the wisdom of setting aside the Social Security surplus entirely for debt.

Repaying the national debt is not like paying off your mortgage. You do not keep going until, one month, you wake up to find yourself the happy owner of your property. Rather, the national debt forces on you a host of tricky policy questions. The size of the irreducible debt is one such. The others are: what happens to monetary policy and to the markets as government debt disappears? And what happens to the budget surplus after the debt is paid off?

The iceberg issue

The first questions are in a sense mechanical ones, but no less important for that. Remember that the Fed is a bank and has to balance assets and liabilities. Its liabilities are dollars in circulation. Its main asset to balance the long-term fluctuation in the money supply is its Treasury-debt portfolio ($500 billion now). But what if that goes?

The Fed has already begun to wean itself off Treasuries. Last year, it restricted itself to a limited portion of any single Treasury issue (between 15% and 35% depending on the issue). Instead, it holds more securities from commercial banks. (It did the same when it was first set up in 1914, though then it used

these holdings to direct credit to selected banks and sectors of the economy— a piece of interventionism the Fed now forswears.) The trouble is that Treasury debt is a perfect instrument for the Fed. It has a deep, liquid market. It is risk free. And it raises no concerns about the Fed allocating credit. None of that is true of commercial debt.

The markets use Treasuries as a benchmark. That too is changing. Once the 30-year bond was the benchmark. Now it is the 10-year one. Soon that may have to go. The General Accounting Office has already warned the Treasury to change its debt-management strategy next year to let markets adjust to less debt.

That leaves a longer-term question. What happens if the debt slips to its irreducible minimum (whatever that is) and if government revenues are then still higher than spending? That may not happen if its surpluses disappear. But the administration reckons it will occur in 2008—and Mr Gensler's more aggressive debt-repayment policies would bring the date sooner.

The idea of the Treasury one day having billions of dollars in cash to spend and no debt to pay off is something of a political iceberg—huge, but mostly below the surface. Some Republicans, such as Dick Armey, the majority leader in the House, are already arguing the excess cash should be used to cut taxes further. The Democrats balk at this and try to change the subject back to debt reduction. But one possibility would be the government investing the excess as a private citizen might—in the stockmarket.

The administration estimates it will accumulate $1.3 trillion of excess cash by 2011 even after the tax cut. That would be enough to buy 7% of the companies listed on the New York Stock Exchange, assuming the market's capitalisation were to grow in line with the economy. State and local governments already own $2 trillion worth of shares—mostly through pension funds. The big difference is that there are thousands of such funds, and to the extent that they make bad investments for political reasons (eg, buy companies in "their" state), they cancel each other out. In contrast, the federal government would be an 800-pound gorilla in the market, "fostering [as Grover Cleveland put it in the same speech] an unnatural reliance in private business upon public funds."

Perhaps the most elegant solution is one suggested by Mr Greenspan: use the excess cash to help set up individual retirement accounts, thus financing the transition costs of reforming Social Security, and using the current period of budget surpluses to plan for the day, a decade or so after the debt is paid down, when the retirement costs of the baby boomers will drive the budget back into deficit. But first, politicians have to think through the implications of what paying down the national debt really means. At least they are starting to do that.

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Lexington

Stopping soft money

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NEXT week, the campaign-finance gala ball kicks off on the floor of the Senate with debate on the so-called McCain-Feingold bill. This is America's best opportunity in a decade to change its system of money politics. If the bill were passed, it would be the first big revision to campaign-finance legislation since the current rules were enacted in 1974. Supporters of reform sometimes claim anything would be better than the current system. Well, perhaps. The immediate threat is that the bill will be amended into incoherence. But the worry remains that the bill presents the wrong approach for long-term reform.

No one knows what the McCain-Feingold bill will look like if or when it emerges. In its favour, the election of 2000 replaced five senators opposed to reform with five who support it (the Senate has always been the obstacle: reform bills have passed the House). Against that, Democrats who supported reform, knowing full well it would never survive opposition in the Senate, have begun to get cold feet now it stands a chance of passing. And, of course, opponents are trying to inflict death on the bill by a thousand amendments.

But the real question is not who will win in the Senate. That is anyway only the start of a process that will involve trying to persuade President Bush to sign the bill and defending the result against inevitable challenge in the Supreme Court. Rather, the question is: are the proponents of change fighting the right battle?

Over the years, McCain-Feingold has been stripped to its essence: banning "soft money", the unregulated contributions that go to political parties. Soft money began as a way round the 1974 controls imposed on personal donations to candidates ("hard money"), and, on the face of it, it sits right at the heart of the problem. Soft money is the sort of thing only a lawyer could love. Any individual or any organisation can give as much soft money as they want to a political party to promote candidates for office, with the sole proviso that the party may not, under any circumstances, suggest people actually vote for the candidate. Sensible, isn't it? Except that the money can readily serve that purpose in modest disguise and does.

This brilliant scheme has overwhelmed American election spending. The amount of soft money in presidential campaigns has risen from $90m (or 17% of the total) in 1992 to nearly $500m (or 41%) in 2000. It alone accounts for well over half the increase in campaign spending in the past three elections, so if your aim were just to reduce the number of dollars in politics, banning soft money looks like your best bet. And some reduction is desirable. These days, to run as a senator even from a small state like John McCain's Arizona requires raising $10,000 every week for six years. In California, you need to raise something like $50,000, week in week out. Politicians are pawns in their own fundraising efforts.

That is on the "demand side". On the supply side, soft money raises the appearance of influence-buying—and that is putting it very politely. The first bill that passed the House under Mr Bush made it harder for people to declare personal bankruptcy, something that credit-card companies claim debtors have been doing too much. This claim is a matter of debate. What is unquestionable is that the credit-card industry has been one of the most generous soft-money donors to Republican causes.

Soft money, then, looks like an irrational, bloated and corrupting part of politics. Banning it should make things better—despite two possible drawbacks. First, if the same amount of money went directly to candidates, rather than to parties, that might actually be worse, because candidates are in a better position than parties to dispense legislative *quids pro quo*. But the hard-money rules should limit that problem.

The second worry about banning soft money is that it will undermine the parties, especially the Democrats, who depend on soft money more than Republicans do. This also seems unlikely. Parties

would certainly have to move their fundraising away from corporate and institutional donors towards individuals. That, broadly, is what happened in the period between the hard-money limits in 1974 and the rise of soft money in the late 1980s—and it helped change the shape of the Republicans from corporate Rockefeller types to free-wheeling individualist Reaganites. Whether that was good or bad depends on your point of view. But it is not an argument against banning soft money.

So banning soft money would represent an improvement to the current system. But is it right to accept the guiding principle of the reform—to find ways to restrict the amount of cash sloshing around the system? You can hardly stop money in politics—not least because the courts hold that limits on spending are limits on free speech. But micro-managing the system does not work. Rules like the one preventing parties from urging people to vote for their own candidates are absurd. McCain-Feingold is basically more fiddling: an attempt to close loopholes by adding further restrictions to the rule book.

For instance, a vital part of Mr McCain's bill would ban advertising by independent groups before elections. This is necessary because otherwise special interests could shift their soft-money donations into advertising campaigns of their own, which would be wholly unaccountable. The logic is impeccable but alarming. To make the limits on personal contributions effective, you must ban soft money. To make the soft-money ban stick, you must limit independent political advocacy. And what do you do if you need to make those limits stick? The moral is not that the regulatory system does not work. It cannot.

The truth is that McCain-Feingold underestimates the problem. The whole campaign-finance system is a mess, not just the soft-money bit. Four years ago, Jonathan Rauch (Lexington's former colleague at *The Economist*) argued in the *National Journal* for a radical simplification: public financing of candidates who agree to eschew private money, total disclosure of all political contributions—and no other restrictions. That is not on the agenda. McCain-Feingold is—and it deserves to pass, but only as a temporary improvement. The simplifying solution is some way off.

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Down and (almost) out in New Orleans

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From The Economist print edition

ONCE New Orleans was the most important city in the South. Nowadays Louisiana looks enviously at its neighbours. Texas is exporting personal computers by the millions. Mississippi (never an object of envy before) has a $930m Nissan factory on the way. Louisiana, by contrast, is struggling to hold on to two of New Orleans's proven losers—Harrah's Casino and the New Orleans Saints football team.

Harrah's, a Las Vegas-based gambling company, won the right to operate the only land casino in New Orleans a decade ago. But the costs of the project zoomed, not least because the company agreed to a minimum tax payment of $100m a year. A temporary casino that was supposed to generate money to pay construction costs declared bankruptcy in 1995. The so-called permanent casino opened in 1999.

The synthetic stucco was barely dry on the walls when Harrah's officials began complaining about the minimum tax payment. Despite the fact that 2,800 jobs were at stake, Louisiana's governor, Mike Foster, refused. Now that the casino is threatening to close on March 31st he is trying to help.

The Saints now play their home games at the Louisiana Superdome, a state-owned building that is more than a quarter of a century old. Now they want a new stadium (perhaps costing $300m) and the state to pay for a third of it.

The Saints have performed abysmally for most of their 30-year history. Saints supporters reply that every first-tier American city needs a team, and that losing both the Saints and Harrah's would be a catastrophe. "I don't think we'd ever recover," says Ken Hollis, a Republican state senator who heads a group called Save Our Saints.

One complication is Louisiana's generally underpaid and angry schoolteachers. In December, Mr Foster suggested cutting Harrah's minimum tax payment nearly in half in return for three years' guaranteed payment: the proceeds would finance rises for the teachers. He also wants to use part of the Harrah's money as a "sports incentive fund" to entice the Saints to stay.

The State Senate has cut the Saints out of the deal, but, as *The Economist* went to press, the casino tax-cut was expected to pass. But what then? Even if the governor's plan passes, Louisiana will still have poor schools, a reputation for political hijinks, a tax structure that discourages new businesses and what Mr Hollis calls a "windowsill economy." "We're sitting like a cat in the windowsill," he says, "watching the world go by."

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Guyana's closely observed election

Mar 15th 2001 | GEORGETOWN
From The Economist print edition

Why should a small country draw so many invigilators?

Get article background

Mark Wilkson

TEN days before Guyana's election, on March 19th, all seemed calm in the capital, Georgetown. Rival candidates had set out their stalls at a street fair under the trees on Main Street. The youth minister and the foreign minister of Guyana's People's Progressive Party (PPP Civic) government could be seen in lively debate with teenage supporters of the opposition People's National Congress (PNC Reform). Passers-by were splashed with red and blue paint in preparation for a Hindu festival. Across town, the West Indies had just opened a five-day test match against South Africa. Relaxed Caribbean democracy, you might think.

Not many others think so. On polling day, international observers will be out in force: 170 of them, from 45 countries and affiliated to six different organisations, including the European Union and the Organisation of American States. They are set to stay for ten days after the election. If necessary, they may stay longer.

Local observers will be out in force, too. The Electoral Assistance Bureau (EAB) will deploy independent Guyanese observers in most of the 1,879 polling stations. An elections commission, half of whose members are opposition nominees, has been working tirelessly since May. It is chaired by a former army commander, Major-General Joseph Singh, one of the few prominent Guyanese to be respected by both sides of the political divide. Yet, since April 4th last year, a former elections manager from the London borough of Hammersmith has also been keeping an eye on the commission, its staff, buildings and records. About $4m-worth of international help has come in the form of new ballot boxes, computer systems, organisation, transport and advice. That works out at $5 for each of the country's 800,000 citizens, just to keep the election clean.

An awful lot of fuss for a small country? At first, it seems so. The extent of trouble so far has been a protest outside the elections commission office because the voters' list was not up to standard, and because too many people either do not yet have the new identity cards that were planned for the vote or allegedly have cards bearing someone else's photograph. The commission agrees that there have been delays, but believes it can deliver most of the cards by polling day, and says that no qualified voter will lose his right to vote.

Yet the invigilators are necessary, because Guyana is trapped in a political morass that has lasted almost 50 years. A history of disputed elections and ethnic bitterness divides the mainly Indo-Guyanese supporters of the PPP, now led by the 36-year-old president, Bharrat Jagdeo, from the mainly Afro-Guyanese PNC, led by a 72-year-old former president, Desmond Hoyte.

There are more Indo- than Afro-Guyanese, but the PNC held power from 1964 to 1992 through a series of blatantly rigged elections. Outside help, mainly from ex-President Jimmy Carter's foundation in Atlanta, helped broker the return to democracy in 1992. Some PNC supporters rioted on election day, but the PPP's victory was broadly accepted.

The next poll, in December 1997, was more troublesome. Three foreign observer groups and the EAB witnessed the preliminary count at the polling stations and broadly endorsed the result (victory, again, for the PPP). But the formal reporting procedure was chaotic. An angry PNC refused to accept the elections commission's verdict. Its supporters rioted into the new year.

The Caribbean Community, Caricom, helped negotiate an agreement in July 1998. In return for peace, the PPP agreed to give up two years of its term of office. Diplomats talked of a power-sharing

constitution. Both parties preferred instead to keep the winner-takes-all system, though with some limited reforms.

The PNC maintained its refusal to recognise the government, and sought justice in the courts. After three years, a ruling was handed down in January: the 1997 election had been illegal, because electors had been required to produce a special identity card at the polling station. This, the court has now ruled, interfered with the constitutional right to vote.

Neither party was happy with this ruling, and both have appealed; but the judgment states that the present government must step down, at the very latest, by the end of March. So it is hard to see how the election can be postponed. Both the technical assessor from Hammersmith and Major-General Singh are confident that voting can go ahead on March 19th, with a voters' list that meets international standards and the ID cards distributed. Guyanese voters will hope so, but cannot feel confident that the election will resolve the underlying rifts.

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Colombia

The outside world looks in

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From The Economist print edition

Get article background

EVER since the snail's-pace peace talks between President Andres Pastrana's government and the Revolutionary Armed Forces of Colombia (FARC) began two years ago, the guerrillas have refused to allow outsiders any role in helping to speed things up. So it seemed like progress when, on March 8th, a group of ambassadors and diplomats from 25 foreign countries visited the rebel enclave in southern Colombia for a meeting with FARC leaders. But was it?

After an hour-long drive in buses over rough tracks to the sweltering jungle village of Los Pozos, the diplomats were briefed on the peace process by both government and guerrilla negotiators. The FARC invited the envoys to three future meetings to hear its proposals on land reform, the substitution of drug crops, and a five-year moratorium on Colombia's foreign-debt payments. The only concrete result was an agreement that ten countries (six Europeans, plus Canada, Cuba, Mexico and Venezuela) would act as a liaison committee, meeting the negotiators every two months, first of all to talk about coca eradication.

The foreigners hope that through such meetings they can persuade the FARC to make more effort with the peace talks —and convey international condemnation of guerrilla kidnaps, murders of civilians, and involvement in the drug trade. The United States declined Mr Pastrana's invitation to attend the meeting: though it says it supports the peace process, it refuses contact with the FARC until the guerrillas hand over those responsible for murdering three American indigenous-rights activists in 1999.

The FARC seemed happy with the apparent international recognition bestowed by the diplomats' presence. It likes to portray itself as a force to be reckoned with, on level terms with the government. At a rare press conference three days later, Manuel Marulanda, the FARC's veteran leader, said that he hoped that a " humanitarian prisoner exchange" would take place within the next ten days. For several years, the FARC has held some 500 police and troops, who surrendered when their bases were attacked in 1996-98. It wants to swap some 50 of these, who are ill, for a similar number of sick guerrilla prisoners—followed, Mr Marulanda said, by the unilateral freeing of up to another 100 servicemen.

Such a deal is anathema to the armed forces and many politicians, given the FARC's reluctance to agree to a ceasefire. Press reports suggest that only a few of the imprisoned guerrillas are in fact ill; they include rebel leaders useful to the FARC's military strategy. No sooner had the diplomats returned to Bogota than news came through of a FARC attack on a marine detachment guarding a telecoms tower on a mist-shrouded mountain in south-east Colombia. In the armed forces' worst setback in a year, 17 marines were killed.

In another blow to peace, Colombia's second guerrilla group, the National Liberation Army (ELN), has suspended talks with the government. The ELN has seemed more eager than the FARC for a negotiated settlement. Last month, the government agreed in principle to hand over a 400,000-hectare enclave in northern Colombia to the group, to allow it to hold a peace convention. Since then, the army has staged a large-scale operation in the area, aimed ostensibly at drug traffickers and right-wing paramilitary groups and to reassure civilians. The ELN claims it was the real target.

Many Colombians still hope that tangible results will soon flow both from the government's agreement with the ELN and from Mr Pastrana's tête-à-tête last month with Mr Marulanda, which seemed to rescue the talks with the FARC from collapse. But there are no signs of such results yet.

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Women's rule

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From The Economist print edition

IN A social experiment that has never before been tried in a capital city, Antanas Mockus, Bogota's eccentric mayor, declared March 9th a women-only night. Female officers were given command of the police and emergency services, and a voluntary curfew was imposed to keep men from the streets after dark. Those chaps who slipped out (some in dresses) were heckled, hustled out of clubs and pelted with flour bombs.

Reuters

No place for a man

Mr Mockus felt that *los machos* should take a night off to ponder the fact that they cause most of Bogota's violence. He wanted to provoke debate, and the media obliged with a flood of articles on violence inside the family, the division of household chores and the importance of teaching Bogotanos civic behaviour. *Los machos* came off badly on all counts. As for the curfew, this had dramatic results: with the men corralled indoors, the city's murder rate and road accidents both fell by 80%, and other serious crime by 30%.

Mr Mockus—a mathematician and philosopher of Lithuanian descent—seems to have a knack for making Bogotanos change their bad ways. During his first term as mayor, from January 1995 to April 1997, he coaxed through legislation forcing bars to close at 1am—and this in a city addicted to all-night dancing. He offered a small sum of money for every illegal weapon handed in; these were melted down and recast, symbolically, as cutlery. With a series of witty campaigns, he slashed the capital's crime rates.

He is also credited with overhauling Bogota's finances, enough to allow some heavy investment in roads, and with building a network of parks and cycle-paths in a drearily concrete city. No surprise, then, that although Bogota's mayors cannot serve a second consecutive term, voters took their first opportunity to return Mr Mockus to office in January this year. It hasn't taken him long to stamp his unique style on city hall again. But hold your applause: this Friday, it's the men's turn to run Bogota all by themselves.

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Canada

It's tough on the left

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ALL winter, the New Democratic Party (NDP), traditionally the third force in Canadian politics, has been in the dumps. After 40 years of nudging Liberal (and, occasionally, Progressive Conservative) governments towards social democracy, it is on the brink of reinventing itself. The renewal will get its first airing with street protests in Quebec city during the Summit of the Americas next month, and will be followed, the NDP hopes, by rejuvenation in the rest of Canada. In the west, the New Democrats still run three of the four provincial governments.

It was last November's election that made renewal necessary. In the noisy duel between Jean Chrétien's Liberals and the newly minted Canadian Alliance, led by Stockwell Day (from which Mr Chrétien emerged decidedly the winner), the NDP leader, Alexa McDonough, was left on the sidelines arguing about health care. Her party won only 13 seats (having held 21 before), and attracted only 8% of voters. In the good old days under Ed Broadbent, in 1988, the party won 43 seats with 20% of the vote.

Ms McDonough is getting plenty of (conflicting) advice on how to recover. Mr Broadbent himself stepped out of the academic shadows to announce a conference in May on the future of social democracy in Canada—and on the relevance of the NDP. The president of the Canadian Auto Workers, Buzz Hargrove, called for a return to socialist principles. Svend Robinson, the most radical of the surviving NDP MPs, urged party leaders to be more passionate about the threat of globalisation. Ms McDonough took soundings in her caucus, and emerged with the idea of going to the barricades at the April summit. Mr Robinson, taking this very seriously, has booked the largest parliamentary committee room on March 22nd to give his colleagues some necessary lessons in the art of non-violent resistance.

It is a start, but hardly a useful new direction for the party. That remains elusive. Hardly anyone suggests moving right, although Ms McDonough had a brief flirtation with Tony Blair's Third Way. Many want to copy Canada's Liberal model, making the federal party independent of its provincial organisations and the different bits of local baggage they carry.

After that, opinions divide. Should the NDP simply be a movement, offering fresh ideas to other federal parties? Should it change its name to, say, the Citizens Party and campaign for mass-membership in the unions, rather than be tied to union leaders? Mr Broadbent, who thinks Canada's first-past-the-post electoral system is "outrageous for a democracy", would like the party to champion electoral reform. He also points out that Germany and Sweden have poverty rates half those of Canada, and suggests that social democrats elsewhere are finding the right policies. Why can't the NDP?

The strength of debate suggests the party is gaining new life. The test for Ms McDonough will come in November, when the federal convention of the NDP includes a vote on who should lead it.

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Chile

Riding the rails

Mar 15th 2001 | BETWEEN SANTIAGO AND TEMUCO
From The Economist print edition

NOWADAYS, only two trains a night run from Santiago, Chile's capital, to Temuco, in the south. This line, which covers 680km (547 miles) is a railway buff's dream. The wood-panelled sleeping cars were built in Germany in the 1920s; the dining car is a relic of the 1960s; and the waiters, many of whom have spent a lifetime working on the trains, happily regale their customers with tales of bygone railway glories.

Can those glories be restored? Chile's government hopes so. Suburban railways, it says, are needed to improve access to big cities, while better long-distance services would reduce the tendency of Chileans to cluster in Santiago. (The city has about one-third of the country's 15m inhabitants.) Trains would help reduce road deaths and cut pollution, besides offering grand views of the Andes out of the window. However, the government's arguments may not cut much ice with private investors—or with the general public.

Until the Pan-American highway was completed in the 1960s, the train was the best way to get to the south of Chile. Today, there is fierce competition both from coaches on the highway, which is being upgraded through concessions to private companies, and from air services. Most Chileans steer clear of the trains, which keep poor time and often offer a rocky ride. Many passengers (and almost all those eating in the expensive dining cars) are tourists.

The decline of the trains, like much else, is partly General Augusto Pinochet's fault. Probably out of gratitude to the lorry drivers, whose strike helped pave his way to power in 1973, he starved the railways of money. During his 17-year dictatorship, passenger services from Santiago to the north and to Valparaiso ground to a halt, and Santiago lost one of its two terminals.

When President Ricardo Lagos, a moderate socialist, took office last March, he promised improvements in passenger-train services, especially in the suburbs. "A per capita income of around $5,000 is the stage at which countries start to need suburban railways," says Nicolas Flaño, the president of EFE, the state railway company.

As part of a $112m, three-year investment programme, EFE has already developed suburban services into Santiago from towns on the line south. Within the next few months, the government plans to offer a private tender for a new service between Santiago and Melipilla, a town 60km south-west of the capital. That project will require an estimated investment of $140m, some of which will come from the government. If the tender is successful, more may follow to develop other suburban services and to improve services to the south.

Gradually, EFE is building a better service. By the end of next year, it expects track repairs to have cut the journey time from Santiago to Temuco from 12 1/2 to nine hours. The company will soon take delivery of more modern trains, acquired second-hand from Spain. But the government has said that further improvements, including the extension of passenger services to Puerto Montt in the far south, will depend on private finance.

Private companies, however, will expect big subsidies in return for investing in Chile's run-down railways. And that is exactly the rock on which an attempt to privatise passenger services foundered in the 1990s. There's still time to get that bus, if you run.

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The Zapatour at ground zero

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From The Economist print edition

AP

Going cheap

"THIRTY PESOS!" As soon as Subcomandante Marcos, the telegenic spokesman of Mexico's Zapatist rebels, finished speaking to the crowds that packed Mexico city's *zocalo*, or central square, the T-shirt vendors began dropping their prices. The rebels' two-week-long roadshow, which ended in Mexico city on March 11th, was as awash with merchandising as any pop concert—balaclava hats, scarves, badges, Zapatist dolls, and T-shirts bearing the subcomandante's face on the front and the dates of the "Zapatour" on the back.

President Vicente Fox welcomed the Zapatour, and, in the interests of peace, allowed it to enter the city with the protection of thousands of police. He had promised a radical break with the policies of his predecessors in the Institutional Revolutionary Party (PRI), who had relied on sometimes brutal repression of the seven-year-old Zapatist rebellion. But with the tour over, the hard work is just beginning. The Zapatists promise to stay in Mexico city until Congress passes a long-pending but controversial bill on Indian rights. And Congress is a harder nut to crack. The leader of Mr Fox's National Action Party (PAN), Diego Fernandez, often an adversary of the president, said this week that the bill will not pass without "thorough changes".

Many legislators from the PAN and the PRI do not like the bill's central provisions: giving Indian communities some autonomy to govern themselves by traditional customs, and some control over the natural resources on their land. These resources, such as water, oil and minerals, are particularly rich in the south-eastern states of the country, which also have the largest Indian populations. But these are the poorest states, since their wealth has tended to go straight into the government's coffers or into landowners' pockets.

When Marcos and his colleagues arrived in the capital, congressional leaders proposed a meeting to discuss the bill. Marcos called this "humiliating" and said that he wanted to make a formal address to Congress. Legislators reject that idea, so matters are at a standstill. Nor is there any sign yet of rebel willingness to revive the peace talks that were abandoned in 1996. On March 14th, Mr Fox admitted that "we are at a dead end." He hopes still to sit down with Marcos next week. That looks optimistic.

The Zapatists' achievement has been to draw worldwide attention to the Indians' plight. They have also given Mexico's splintered political left something to agree on. The general public is sympathetic, too. The challenge for Marcos, a consummate publicist, is to build on and maintain that support now the march is over. His intransigence is not a good start.

For Mr Fox, the challenge is to convince the sceptics—not just Congress, but also businessmen, many of whom supported his electoral bid. When he told a recent gathering of company bosses that he welcomed the Zapatour, he got a lukewarm reception. Both men will have their work cut out. Perhaps the price of Marcos T-shirts will, after all, be the best indicator of the Zapatists' fortunes.

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Argentina

Case not closed

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AS ARGENTINA prepares to commemorate, next week, the 25th anniversary of its most recent and bloodiest coup, is it possible that the human-rights abuses committed then may at last be punished? Although the courts have taken their time, the possibility now seems closer than ever.

EPA

Not immune any more

Argentina went further than most countries in the region to bring the armed forces to book. Two years after democracy was restored, the members of the juntas that ruled between 1976 and 1983 were tried and received stiff sentences for the torture, kidnapping and murder of as many as 30,000 people. But later governments backtracked. Under Raul Alfonsin, in 1986, the Full Stop law limited further trials; a year later, the Due Obedience law excused the vast majority of officers on the grounds that they were only following orders. Mr Alfonsin's successor, Carlos Menem, pardoned the jailed members of the armed forces in 1990. That apparently closed the chapter.

However, earlier this month a federal judge, Gabriel Cavallo, declared the amnesty laws unconstitutional, allowing a case to proceed against army officers accused of the "disappearance" of a young couple and their baby in 1978. Defence lawyers promise to appeal, adding that politicians ought to take the blame. Congress, declared one, had "demanded the elimination of these rats in any way possible."

Although Judge Cavallo's ruling applies only to this case, it opens the way for similar rulings in the other cases he is investigating. It may also allow the re-opening of trials for related crimes, including all those committed at ESMA, the notorious Navy Mechanical School. Other judges may follow Judge Cavallo's lead.

It was the Centre of Legal and Social Studies (CELS), a human-rights group, that petitioned Judge Cavallo to make his ruling. According to Victor Abramovich, CELS's executive director, that ruling has come now—after many years of foot-dragging—because of the growing importance of international law. War crimes in Yugoslavia and Rwanda, for example, do not lapse and cannot be subject to amnesties. South American judges have also been emboldened by foreign attempts, especially those of Spain's Baltasar Garzon, to extradite Argentine and Chilean military leaders.

Even before Judge Cavallo made his ruling, 20 military leaders had been charged with the abduction of hundreds of babies from women who gave birth in jail before their disappearance: a crime not covered by the amnesty laws. So far three members of the last junta have been arrested, as well as the first and last military presidents.

The reaction of the armed forces has been mixed. Martin Balza, who headed the army until late 1999, has publicly expressed his regret for human-rights abuses. His successor, Ricardo Brinzoni, regrets them too, but his self-criticism is much more measured and his defence of officers brought before the courts is more determined.

Horacio Verbitsky, the president of CELS, agrees there could now be a procession of army officers through the courts. But he points out that few of those accused are still in active service. Around 90% of current officers either joined in the years after the dictatorship or were among the lowest ranks who did not take part in the abuses. Of the 10% remaining, less than a tenth are likely to face charges. This means, says Mr Verbitsky, "that 99% have nothing to fear."

After Judge Cavallo's ruling, some political and church leaders declared that Argentina should stop raking

over the past. One newspaper poll showed, however, that 70% of Argentines oppose the amnesty laws. Perhaps for that reason, although the government has shown little enthusiasm for more trials, it has not tried to interfere.

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Japan's long goodbye

Mar 15th 2001 | TOKYO
From The Economist print edition

Yoshiro Mori, Japan's prime minister, is at last on his way out. But Japan's future remains worryingly obscure

Get article background

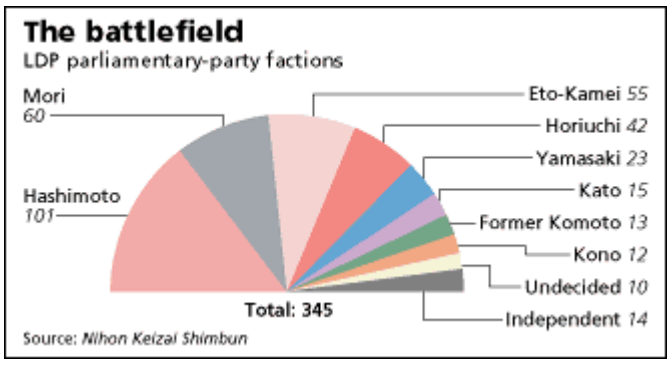
Reuters

Nonaka: man of the people

HE CANNOT quite bring himself to say it out loud. But Yoshiro Mori is finished, and everybody knows it. On March 13th, Japan's prime minister confirmed that he was bringing forward the Liberal Democratic Party's leadership election, which was due in September. As the LDP dominates the coalition government, whoever wins this race will also claim the prime minister's job. Once the budget is through parliament, Mr Mori will then make his departure official, perhaps in early April. That, however, is all the party can agree on right now. Who will succeed Mr Mori—and even how and when—remains as mysterious as ever.

The how dictates the when. Mr Mori's own route to the top, via a shady backroom deal among five party barons last April, made him deeply unpopular from the start. This time, the LDP must at least put on a show of democracy. But a by-the-book election, involving all 2.4m party members, would take more than a month to organise. That would leave little time to reverse the party's dismal fortunes before July's crucial upper-house election. So the party elders are pushing to restrict the vote to the parliamentary party, plus one representative from each of the 47 prefectural chapters. Naturally, local bosses want a bigger say. But the larger the electorate grows, the longer it will take to fix the outcome.

There is plenty to fix. Mr Mori's 11 months in office have left the LDP looking desperately split. Yawning policy differences between the party's conservative mainstream and liberal minority have already led to one attempted coup on Mr Mori's watch, by a young reformer, Koichi Kato. Since then, the mainstream itself has split over Mr Mori's future. One camp, led by a faction headed by Ryutaru Hashimoto, a former prime minister (see chart), has worked feverishly to rid the party of the stunningly unpopular Mr Mori. The other, an alliance between Mr Mori's own faction, and one jointly led by his policy chief, Shizuka Kamei, has been struggling vainly to prop up Mr Mori. Although Mr Mori is now going, the split remains. One of the two candidates most likely to succeed him, Hiromu Nonaka, is from Mr Hashimoto's camp. The other candidate, Junichiro Koizumi, is from Mr Mori's.



The two men could not be more different. Mr Koizumi is all privilege and polish. After graduating from Keio, a posh Tokyo university, he followed his father (and his grandfather before him) into politics. Accomplished and sophisticated—his interests span opera, classical music and *kabuki* theatre—Mr Koizumi looks good on television and is popular with the voters, especially women. He even has a reputation as a bit of a reformer, although his cowardly betrayal of his liberal allies in November's failed coup has put a big dent in this.

Mr Nonaka is a much more interesting character. He comes from Sonobe, a district in Kyoto known for its

large population of *burakumin*, literally “village people”. This is a group that, like India’s untouchables, used to handle the jobs no one else would do, such as tanning, butchery and rubbish collection. Mr Nonaka himself left school at 15 to become a railwayman. Discrimination pushed him into local politics, where he eventually won his spurs breaking the Communist Party’s armlock on Kyoto’s municipal government. The LDP rewarded him with a seat in parliament.

To voters, Mr Nonaka and his allies, among them Muneo Suzuki and Makoto Koga, are an intimidating bunch. Mr Suzuki comes from a rough working-class background. Mr Koga, whom Mr Nonaka installed as the LDP’s secretary-general when he resigned from that post in December, is said to describe himself as a *kawasujimono*. This word is from the southern island of Kyushu, where Mr Koga’s father worked in the coal mines, and suggests a proud, rough, hard-drinking working man. The LDP is just as intimidated by Mr Nonaka himself. His chief currency is information, especially the sort of information that puts politicians in hot water. He employs his black arts to gain advantage behind the scenes and, last November, to put down Mr Kato’s rebellion. “Some flowers like the sunlight,” says one insider. “Others prefer the shade. Mr Nonaka is the latter variety.”

It is still too early to tell for sure. But Mr Nonaka may soon have his time in the sun. Because he champions the poor, immigrants and other underdogs, he is close to the Buddhist-backed New Komeito party, the most important of the LDP’s two coalition partners. Komeito is supposed to be the party of “clean government”, and so has been especially upset by the lingering presence of Mr Mori, around whose cabinet swirl assorted scandals. Komeito is even threatening to abandon the coalition altogether. Mr Nonaka is probably the best man to patch things up.

Party barons then hope to mend fences within the LDP by offering Mr Koizumi a plum job in Mr Nonaka’s new line-up, either as party secretary-general, or as foreign minister. The deal will be sweetened, it is hoped, by giving Mr Nonaka the job for just five months. He is, after all, 75 years old, on the aged side even for Japan. Yet another party leadership election will then be held in September, after the upper-house election is out of the way.

What this all might mean for Japan’s economy, which lurches from bad to worse, is anyone’s guess. Almost nothing is known about Mr Nonaka’s economic thinking. But some optimists hope he will appoint as his finance minister a younger reformer like Yasuhisa Shiozaki as a sop to the party’s discontented youth, who are frustrated by the LDP’s rigid seniority-based system of promotion. Unlike Mr Mori, Mr Nonaka would also be his own man, and may return some welcome control to Japan’s disturbingly chaotic politics and economy.

In the meantime, there will be more drift and more muddle as Mr Mori limps on for another month or two. In the end, the LDP avoided the ugly scenes that had threatened the party’s annual conference on March 13th. Outside, however, local party members were forlornly handing out leaflets, on which they had written, “The party is going to die.” The message is not getting through.

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Debate in China, within strict limits

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YET again, China's parliament, the National People's Congress (NPC), ended its annual plenary session this week by obediently passing every measure put to it by the country's Communist leadership. There is no telling how much China might benefit from a legislature that sometimes dared to vote no. But to dwell only on the NPC's spineless voting practices would be to risk missing how its role is, in quieter ways, changing and growing.

After the past two decades of economic reform and social liberalisation, Chinese society has become far more diverse, and that diversity—within limits—can be seen among the nearly 3,000 delegates to the NPC. Industry groups, health and environmental activists and even private entrepreneurs are finding it possible to take part and get their views across. Organised opposition to the Communist leadership is not tolerated, but strong opinions are. Newspapers and broadcasters, while remaining under government control, must now battle for attention and are ranging further afield in search of interesting or controversial stories.

"Our role as NPC delegates must be to offer suggestions and, when necessary, to make tough criticisms of wrong policies," said Bai Tongshuo, vice-dean of Shanghai's Jiaotong University and a member of Shanghai's NPC delegation. Mr Bai had just emerged from a spirited exchange with Xu Kuangdi, who is mayor of Shanghai and a powerful member of the Communist Party Central Committee. After debating with Mr Xu on the need for the centre to yield more decisions to local education authorities, Mr Bai held court for local reporters to elaborate on flaws in current policy.

Alas, not all of the juiciest bits make it into print or on to China's airwaves, but a good deal of substance does. Perhaps more important, such debate is heard by policymakers, be they senior ones like Mr Xu or the mid-ranking officials from central ministries who sit in and monitor the NPC sessions of provincial delegations. Notebook in hand and wandering from session to session, one department head from the powerful State Development Planning Commission said that such feedback is not only heard but heeded.

The inter-sessional work of the NPC is also changing in significant ways, notably in the business of preparing new legislation. The NPC works year round to hear views and draft laws and amendments. According to Chinese legal scholars, that work is becoming more professional and less ideological.

But above it all hovers the NPC Standing Committee, whose 134 members meet every two months and have ultimate control over all procedure and legislation. Chaired as it is by Li Peng, who moved into the job after serving for ten years as China's hardline prime minister, the Standing Committee can be trusted, for better or worse, to ensure that the NPC never turns truly unruly.

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Indonesia

Holy war in the Spice Islands

Mar 15th 2001 | AMBON
From The Economist print edition

Get article background

THERE is still gunfire every night in Ambon, the capital of the Moluccas, and sometimes a shattering bomb blast. Once a thriving commercial city, it is now a deadly maze of Christian “red” areas and Muslim “white” ones, a pattern of demarcation that has spread to the neighbouring islands. Children play near the front line and cheerfully tell visitors to relax when “there is no shooting at the moment.” But virtually all adult Moluccans are tired of the killing, which has ruined their beautiful islands. Yet that does not mean it is over.

Ambon is now a city divided in two. Muslims call Christians *Obet*, a corruption of Robert. Christians call Muslims *Acang*, a corruption of Hassan. There is often no physical barrier separating red and white areas, but everyone knows where they are and rarely, if ever, does anyone set foot in the opposite camp’s territory. It could mean having your throat slit. Visitors soon learn to recognise the border areas. Everything there is smashed to smithereens.

Three long bouts of religious warfare in just over two years in the Moluccas, once known to European traders as the Spice Islands, have claimed at least 5,000 lives, and probably many more. At talks in Bali and Java aimed at reconciliation, the participants spoke of 8,000 dead. Some say 20,000.

Laskar Jihad, a group of Muslim outsiders generally blamed for setting off the third and most recent wave of violence in the Moluccas last year, now has its Christian counterpart, Laskar Kristus—the Army of Christ. Its commander, Agus Wattimena, looks like a latter-day Jesus with his wiry frame and long flowing locks. His followers claim to be warriors who are defending the faith; they attribute their survival to the will of God.

Some of the younger troops hang out in Ambon’s half-built Roman Catholic cathedral. Work on the building stopped when the war broke out. Now it is a shelter for refugees, among them AGAS, a motley collection of teenage soldiers who will happily make you a pile of bombs if you give them $30. AGAS stands for Church Children who Love God. It also means “gnat”. Many of the children have bullet wounds, and when fighting breaks out they rush out of school and down to the front line. They call it their crusade.

Laskar Jihad emotively claims that its enemy are “RMS rebels”, a name calculated to strike dread into Muslim hearts. But the RMS, the Republic of the South Moluccas, has been defunct for decades, other than as a nominal government-in-exile in the Netherlands. It made its bid for independence in the 1950s but failed miserably. Its remnants held out on the large island of Seram, to the north of Ambon, for 13 years. Eventually they too were defeated.

Muslim sources in Ambon say their side suffered badly during the days of the RMS. Its leaders were mainly Christian officers who had fought for the Dutch colonial government. They were trying to resist integration into a centralised Indonesia ruled from Jakarta, the site of the government they had fought in the 1945-49 war of independence.

So when the current fighting broke out in January 1999, hardline Muslims quickly called the Christian side the RMS. At first it seemed laughable, but in a way it has come true. After Laskar Jihad arrived last year and ignited the third round of the war, some Christian leaders, facing annihilation and a state of civil emergency, founded a new movement of their own: the Maluku (Moluccas) Sovereignty Front, or FKM.

The FKM's aim is to re-create an independent South Moluccan state, though it says it is quite distinct from the RMS. It now has representatives in Jakarta, Europe and the United States. Its leader, Alex Manuputty, is a doctor and a member of the Indonesian Red Cross who lives in Kudamati, an area in the hills above Ambon city, which has become the Christians' command centre. But he says FKM does not want to see Christians dominating Muslims. It wants Moluccans on both sides to take control of their own destiny.

The government in Jakarta has not taken the FKM lightly. It has attempted to prosecute Dr Manuputty for separatist activities, a crime in Indonesia. But the attempt has failed: the Moluccas' legal system is in a mess, and most of the judges have fled.

Indonesia's security forces cannot bring an end to the fighting, say the Christians. Although Christian and Muslim police and soldiers work together when things are calm, the moment fighting breaks out they grab their ammunition and run to fight with their co-religionists. Some have even been filmed doing it. Members of the same units sometimes start shooting at each other. Soldiers and police sell weapons to both sides, at $700 for an M-16 or an AK-47.

For all Dr Manuputty's fine words about living together in peace, even moderate Muslims in Ambon see his FKM as a threat. Laskar Jihad has started putting angry references to FKM alongside those to the RMS in its propaganda outside Ambon's main mosque. Its members are turning more radical. Afghan-style turbans can often be sighted in the Muslim sector of Ambon, and it is becoming more common for women to cover their heads in public. Refugees from Muslim areas of the archipelago have horrific tales to tell of forced Islamicisation, with death the only alternative to conversion. And many believe this is part of a wider long-term strategy to turn not just the Moluccas, but all of Indonesia, into a fundamentalist Islamic state.

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Not so sunny in the Koreas

Mar 15th 2001 | SEOUL
From The Economist print edition

THE old unpredictable habits of North Korea are apparently hard to break. On March 13th, it called off an encounter between the two Koreas just a few hours before ministers were due to meet in Seoul, South Korea's capital. The North has cancelled or postponed several lower-level meetings at the last minute in recent months, but the habit grows no more endearing with time. Kim Dae Jung, South Korea's president, is under pressure at home to review his "sunshine policy" of engaging the North by supplying aid. The North's prevarications do him no good.

The sunshine policy's critics have grown in strength since Mr Kim went to see George Bush in Washington last week. Mr Bush expressed scepticism about the communist regime in the North and its leader. Talks between the United States and North Korea show no sign of resuming.

The North gave no reasons for boycotting the latest round of ministerial talks, leaving room for speculation. Had Mr Bush's harsh words made it think again about its tentative opening up to the outside world, including its leader's much-delayed return visit to Seoul? Or was it simply trying to say that the South was nothing but a puppet of foreign powers, an old complaint now repeated by the state-run Radio Pyongyang? It did, at least, allow an exchange of letters between divided families to go ahead.

Whatever the reason, the cancellation has encouraged opposition politicians in the South to intensify their attacks on a president who, they say, is too trusting of a tyrannical regime that supports terrorism. The main opposition Grand National Party urges Mr Kim to be as tough in dealing with the North as is Mr Bush.

Mr Kim has already had to adjust his tactics, cooling on a plan to sign an inter-Korean "peace declaration" during the northern leader's promised visit. Critics complain that such a declaration would be meaningless without an agreement leading to disarmanent. Mr Kim instead hopes to activate a hitherto-dormant non-aggression pact included in the Basic Agreement signed by the two Koreas in 1991. He reckons that reconciliation with the North and peace on the Korean peninsula are irreversible and encourages his cabinet to continue to push forward with his policy of engaging the North, while America is preoccupied with other problems. Indeed, the South announced on March 12th that it would supply $18m-worth of aid to the North, including clothing, fruit, potatoes, medicine and pesticides. The next day the North expressed its gratitude by cancelling the talks.

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Mongolia

The zud strikes again

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From The Economist print edition

BAD luck and bad management are to blame for a second, consecutive winter of widespread death and shortages in Mongolia. Blizzards, fierce winds and temperatures as low as minus 50°C (minus 58°F) have again taken a toll on the country's livestock and the herders who depend on them. A year ago, severe winter storms, known as the *zud*, came on top of a summer of drought and killed 3m animals, a tenth of the country's stock. Drought then struck again in the summer; and then the *zud* returned. In the winter now drawing to a close, over 1.3m animals are already known to have died in Mongolia, says the Food and Agriculture Organisation. That is many more than at the same time last year, prompting some to suggest the total could reach 6m. With harsh weeks to come, the prospects are bleak.

Reuters

The deep freeze

Awful weather for the second year running is the sort of bad luck Mongolia cannot cope with. This winter is reckoned to be the worst for half a century. Deep snow has covered grazing land. Those cows, goats, sheep, horses and camels that survive will be feeble and of little use to their owners.

Much more could have been done to prepare for this crisis. Food stocks have been declining for years in Mongolia as subsidised, state-run farms have been sold. Private farmers have been unable to get enough loans to buy seeds, fertiliser and machinery and to pay for vets. Fewer fields are now cultivated and yields are down. Wheat production has fallen by more than half, from roughly 700,000 tons a decade ago to under 300,000 now.

At the same time, the withdrawal of Soviet aid led to an increase in unemployment and with it an increase in the number of people dependent on herding. One report suggests that an extra 150,000 people took up herding between 1990 and 1992 alone. The animal stock has also grown, from an estimated 26m in 1992 to 33m six years later, but the area under pasture has not. Though the government was warned, after the drought, that another difficult winter was on the way, only a few thousand tons of hay were allocated for herders. Deliveries were made only last month, after hundreds of thousands of animals had already died.

Outsiders are now being asked to help. The United Nations has appealed for $12m in emergency aid for the country, but has received only $620,000 so far. One or two countries are giving bilateral help: Germany has offered $1m and Japan $2.5m. The total bilateral aid figure is probably only about $5m—not nearly enough. But getting relief to remote parts of the country, in awful weather, is not easy. In January a UN helicopter crashed just after a blizzard, while visiting a particularly vulnerable area. Seven people died.

Mongolia has also been hit by another scourge. Foot-and-mouth disease, which infects animals with cloven hooves and is doing the rounds in Europe, Africa and Asia, has now been confirmed in Mongolia. It could be the last straw for many frail animals. The snows will soon pass, but more woes are just around the corner.

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India

Dotcom coup

Mar 15th 2001 | DELHI
From The Economist print edition

GRAFT is a great leveller. A dozen years ago the Congress party lost a parliamentary election largely because its leaders were accused of taking payoffs from Bofors, a Swedish arms manufacturer. Now in opposition, Congress is demanding that the government resign for getting mixed up in something similar. If the explanation is not satisfactory, says one Congress leader, "the government will have to go."

Reuters

...and of investigative reporters

That still looks unlikely, though the majority of the 19-member ruling National Democratic Alliance could dwindle to precarious levels if the scandal grows. One party, facing a state election, has already threatened to quit. The corruption is so blatant and the evidence of it so compelling that it will surely undermine the government's effectiveness, especially in reforming the economy, and may well damage permanently the prestige of its leading constituent, the Bharatiya Janata Party.

The revelations are the fruit of undercover work by tehelka.com, which calls itself "India's most exciting news-views portal". That may be the first understatement in dotcom history. Tehelka, which means "sensation", got two reporters to pose as arms dealers peddling "fourth-generation thermal hand-held cameras" on behalf of a British company. The cameras and the company were fantasy, but that did not deter officers, defence-ministry officials and politicians from offering to smooth the way to a deal. The tehelka reporters caught several doing so on hidden video cameras.

The BJP's recently named president, Bangaru Laxman, was shown taking 100,000 Indian rupees (about $2,000). He resigned on March 13th pending an inquiry, saying the money was for the party and that the allegations are "totally baseless and malicious". The president of the Samata Party, to which the defence minister, George Fernandes, belongs, was shown accepting twice as much for its coffers, saying the company would get a fair hearing. The government initially rejected Mr Fernandes's offer to resign, but then was forced to accept it as the scandal continued to grow. Several officers and defence-ministry officials have also been suspended. The scandal hammered the stockmarket, reeling already from an insider-trading scandal of its own.

The impression of routine sleaze conveyed by transcripts of conversations between tehelka's sleuths and their victims (available on tehelka's website) will be just as damaging. Politicians and bureaucrats boast of their own influence, implicate others in past misdeeds and discuss the fine points of getting deals through various departments. One senior officer is quoted as saying, "It requires very deep pockets. [A] lot of people have nuisance value. That nuisance value has to be compensated."

The embarrassment is especially acute for the BJP, which has boasted of being a "party with a difference". It is is racing to restore its reputation with quick sackings and promised inquiries. But it may be too late.

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Muddle in Moscow

Mar 15th 2001 | MOSCOW
From The Economist print edition

President Vladimir Putin's biggest achievement in Russia has been political stability. Intrigues—or at any rate confusion—now put that in doubt

WHEN a government faces a no-confidence vote in parliament backed by its own supposed supporters, something odd is afoot. When, a few days later, those same law makers change their mind, it looks even odder. And when the president of the country decides that this is just the time to take a short holiday, then you have a choice between a bunch of baroque conspiracy theories—or the conclusion that Russia's political leadership is losing its grip.

The background to the story is that the gloss is wearing off Vladimir Putin's presidency. It is not just that reform has bogged down, that economic growth is fizzling out, and that the Chechen war is dragging on unwinnably; the Kremlin's own authority also seems to be fraying.

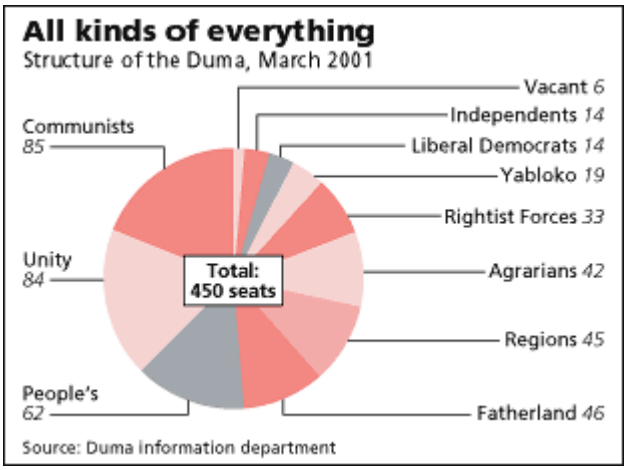
Regional chieftains and tycoons, whose self-important antics plagued the Kremlin under Boris Yeltsin, are less visible these days, but still uncomfortably powerful. The most striking example came recently, after the Kremlin forced the resignation of Yevgeny Nazdratenko, the notoriously thuggish governor of the ill-run Maritime Territory in Russia's far east. Kremlin officials had denounced his incompetence, which left the energy-rich region freezing through the winter. Many Russians hoped his next stop would be prison. But instead, inexplicably, he gained a lucrative new job in charge of the country's fisheries. Russians quipped that the next few months would see a nationwide shortage of fish.

In a country where wisecracks are a significant political barometer, it is telling that jokes, mostly lewd, are now surfacing about the president's personal failings, chiefly indecisiveness. Russia's opinion polls still show Mr Putin as very popular. But they are not completely trustworthy—and in any case his standing is artificially bolstered by a servile state-run television. It could prove brittle. Last month, the previously docile Communist Party said it would propose a no-confidence vote in the government. For a tame opposition that enjoys some of the juiciest positions in the lower house of parliament, the Duma, that was very unusual. Still more startling was that the main pro-presidential party, Unity, then said it would back the move.

The reason, supposedly, was to embarrass the Communists. Under Russia's constitution, a no-confidence vote can eventually lead to new elections. Unity said that it would gain seats from the Communists and other opposition parties. Many of Unity's own deputies complained about the move. So did Mr Putin. The party obediently changed its mind. The no-confidence vote, on March 14th, failed dismally.

What is going on? There are plenty of theories. The simplest is that Unity is a shambles, with a weak, inexperienced leadership that got out of line with both the Kremlin and its own parliamentarians. That fits

the facts: the party was hurriedly assembled and is short of talent. Many of its deputies would hate to give up their lucrative positions early. But it gives an unsettling impression of amateurishness. Why did Mr Putin's fixers let the whole mess develop?



An alternative is that Unity was indeed acting on behalf of the presidential administration—or of a clique within it. Perhaps the aim was to prop up the prime minister, Mikhail Kasyanov, who enjoys only luke-warm support from the president. To sack the prime minister now, after the vote was lost, would look like a feeble concession to the Communists.

There are also signs that some nervous souls in the Kremlin would like early parliamentary elections now, while Mr Putin's popularity is still high, rather than waiting for those due in 2003 when the authorities may be less popular—and when Mr Putin, presumably, will be running for a second presidential term in 2004.

Less popular the authorities may indeed deserve to be. Since the bold tax cuts of last summer, there has been much waffle about big changes to come, but little sign of them in practice.

Bureaucrats are proving the main obstacle to reform. This month government ministries shot down an attempt to reform the licensing of businesses, a notorious source of corruption. A new legal framework for foreign energy and mining companies, which could attract many billions of dollars of investment, and has the personal backing of both the president and the prime minister, is far behind schedule. Another crucial reform is that of Russia's fearsome and unaccountable prosecutors. The Kremlin has hastily backed away from this too.

While the handful of really reform-minded ministers has so far proved to be disorganised and ineffective, other bits of the Russian state are getting on with what they do best: looting and bullying. The overlap between government and business remains large and murky. The security services' grip is strengthening. Grigory Yavlinsky, leader of Yabloko, a tiny liberal party, says the Kremlin is creating a "bureaucratic police state".

The best news, in a way, is the resistance of vested interests to the proposed reforms: it at least shows that they are seen as some sort of threat. But to overcome that resistance will require a lot of presidential clout—which is not apparent.

So far, Mr Putin has listened hard, but wavered when it comes to decisions. Sometimes he favours his liberal advisers. The next minute he is closeted with the hard men in uniform, or is being swayed by the many denizens of the Kremlin left over from the Yeltsin era. He spends an extraordinary amount of time talking to foreign leaders: this year's tally includes leading politicians or government officials from Azerbaijan, Austria, Belarus, Britain, Finland, Germany, Iran, Israel, Latvia, Moldova, NATO, the Netherlands, Nigeria, Slovakia, Slovenia, South Korea, Ukraine and Vietnam. But at home, rather than get involved in the current kerfuffle, Mr Putin went on holiday, to a mountain resort in Siberia. Aides said he was working on an important speech.

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Germany

The cheque isn't in the post

Mar 15th 2001 | BERLIN
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"GERMAN industry has understood its moral responsibilities," a relieved Chancellor Schröder said on learning that German business had finally managed to raise the full DM5 billion ($2.3 billion) promised to compensate Nazi-era slave labourers. Just 24 hours before the chancellor was due to meet industry leaders, to break a new deadlock in the long-running drama over a reparations settlement, the compensation fund set up by German industry last year announced that it had at last succeeded in finding the missing DM1.4 billion.

But it was not simply a new awareness of moral responsibility for the sins of their fathers and grandfathers, nor even the threat of having their heads knocked together by an irate chancellor, that prompted Germany's corporate business elite finally to pay up. It was more the danger of potentially ruinous new claims and the threat to German industry's image abroad, particular in the United States.

Last week's refusal by a New York district court judge to throw out a class action brought against German banks by former forced labourers had thrown business leaders into a tizzy. Under the compensation agreement thrashed out last summer between lawyers for the victims and German negotiators, the American government had promised to issue a "statement of interest" recommending that American courts dismiss all pending and future claims against German companies. On that basis, German business had agreed to pay its DM5 billion in compensation, with a further DM5 billion coming from the German government.

The aim was (and is) that the compensation fund should be able to pay the estimated 1m survivors of forced labour, most of them in Central and Eastern Europe, DM15,000 apiece if their work was done in a concentration camp, DM5,000 if it was in the less awful conditions of a factory. But there was a problem, which is now crystal clear: that the government of the United States could provide no water-tight guarantee against further claims in American's wholly independent—and not famously German-loving—courts. It was growing awareness of this risk that had made German companies increasingly reluctant to make donations to the fund.

Contributions have always, in theory, been purely voluntary. To date, some 6,000 firms, nearly half of them not even founded until after the 1939-45 war, have made contributions. The fund's organisers "strongly recommended" that industrial firms put in 0.1% of their annual turnover, commercial ones 0.01%, and banks 0.01% of their balance sheet total. These recommended figures were increased by half last month.

Some companies have paid a lot more than was asked for; some a lot less; others, including some suspected of having benefited from forced labour, have paid nothing. Though the fund organisers have drawn up a list of those who have contributed, they have always refused to publish a "black list" of those who have not. In her ruling, the New York judge made clear that one of her reasons for refusing to dismiss the claim against the German banks was German business's failure to produce the full DM5 billion promised. Business leaders squealed and claimed the ruling was ill-founded and incorrect. But it seems to have done the trick—in a fashion. The fund's 17 founder members, all of whom have already made hefty contributions, have now promised that, if the fund's arm-twisting of recalcitrant firms is insufficient, they themselves will produce all the money needed to reach DM5 billion.

There's good reason to get moving. Most of the surviving victims are probably aged around 80, and they are dying fast. So negotiators on both sides are anxious to get a final settlement as rapidly as possible. Besides, Mr Schröder wants to be able to leave for his first meeting with President Bush at the end of this month with everything neatly sown up.

Yet under last year's agreement the German fund is not permitted to start making payments to Hitler's victims until Germany's parliament has passed a resolution confirming that a "satisfactory legal peace" has been achieved—which it plainly has not as long as the New York ruling stands. The Germans hope

that the judge may be persuaded to reverse it, now that all the missing millions, or at least legally binding pledges thereof, are in place. But even if that happens, there are 16 other cases still outstanding. So a halt to just this one might not be enough. Nonetheless, the government hopes to see the first payments made before the end of this summer. Can it be done? Perhaps, but the trouble for the survivors is that there isn't much time left.

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France

Local lessons

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From The Economist print edition

SO IS politics local, as an American congressman once said? Media and politicians this week were picking over the first round of France's municipal elections, which, after a second round on March 18th, will have named its 36,000 mayors and 500,000 or so town councillors. But it was national names they were after: who will win next spring's presidential contest, and which party will dominate parliament? The current president, Jacques Chirac, a conservative Gaullist? Or can Lionel Jospin, the Socialist prime minister with whom Mr Chirac has had to "cohabit" for the past four years, secure both the presidency and the National Assembly for the left?

Alas, the chattering classes still don't know. Pollsters were confounded by the first round, on March 11th, and the second may increase the confusion. There was supposed to be a "pink wave" of leftist gains across the country, with voters expressing their disgust at the right's internal bickering and the financial scandals tainting Mr Chirac's past. Instead, the right's vote held up well. Not counting its extremist fringe, it took 46.9% of the vote while Mr Jospin's coalition of Socialists, Communists and Greens won 44.9%.

Worse for Mr Jospin, several ambitious ministers did badly. The minister for Europe, Pierre Moscovici, faces a difficult run-off in Montbéliard, as does the justice minister, Marylise Lebranchu, in Morlaix. Still worse, Elisabeth Guigou, the employment minister, won only 31.5% in Avignon, while the Gaullist incumbent took 49.8%, for all that city's high crime rate and troublesome suburbs. Worst of all, Dominique Voynet, the Greens' minister of the environment, and Jean-Claude Gayssot, the Communist minister of transport, both lost in the first round.

So can President Chirac and the right rest easy? Hardly. Whatever the durability of the right's vote nationwide, what counts in the headlines are the big cities, and the first round offered the right little comfort. In Lyons, France's third-biggest city, its splits look likely to give control to the left. It could be embarrassed in Toulouse too, thanks to the decision of Motivé-e-s, an electoral list supported by the city's ethnic minorities and Zebda, a popular hip-hop band, to team up with the Socialists. And the right may yet lose Paris, a city last run by the left in 1871, where Mr Chirac was mayor from 1977 until he became president in 1995.

With 31.4% in the first round, the Socialist's Bertrand Delanoë, one of France's few openly gay politicians, is no certain winner in the second. But he and his candidates led in 12 of the capital's 20 voting districts, and in the run-off the Greens, who won 12.3% in the first round, will join them. The right, in the first round, was self-destructively split. The official candidate, Philippe Séguin, and his team won 25.7%; the team of the current mayor, Jean Tiberi, won 13.9%—something of a triumph for a man drummed out of the conservatives' ranks for his alleged crimes of vote-rigging and corruption.

The right may yet hold Paris. Just before a deadline of midnight on March 13th, its rival hopefuls reached a deal: in 11 districts where either right or left may win in the second round, each man would withdraw his list where the other was ahead in the first. But France, in next year's national votes? One pundit's conclusion: after the voting of March 11th, Mr Chirac is too strong not to be the right's presidential candidate next year—yet too weak to be likely to win.

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Charlemagne

Otto Schily puts the cuffs on Germany's far right

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From The Economist print edition

Get article background

"HE'S my Fouché", says Chancellor Gerhard Schröder, not without a little pride. "A macabre jest," mutters an embarrassed Otto Schily. How indeed could this gentle follower of Rudolf Steiner's anthroposophist theories, who rose to fame as defence lawyer for the Baader-Meinhof terrorists and other extreme-left militants in the 1960s and 1970s, be likened to Napoleon's repressive police chief? Yet since his appointment just over two years ago as Germany's first Social Democratic interior minister in 70 years, the former self-styled "liberal communist" and co-founder of Germany's pacifist Greens has won a reputation for being a lot tougher on many issues than even some of his most authoritarian predecessors on the right.

Not that all has changed. Today, as 30 years ago, Mr Schily's enemies include the extreme right. He has just set up a special group of federal border police to fight neo-Nazi violence, above all in Germany's ex-communist east. Recorded incidents of far-right crime leapt 59% in Germany last year, to nearly 16,000; among these, cases of violence rose by a third, to 1,000, the highest figure since the wave of xenophobia in the early 1990s after Germany's unification.

Is Germany really that bad? Pollsters indeed say that one German in three feels the country is in danger of being dominated by foreigners. But any racist insult, daubed swastika or Nazi salute adds to the statistics of far-right crime. And their huge reported rise may well owe less to roaring xenophobia than to last year's media hype over a few notorious cases, leading both to more, mainly minor, offences by publicity-seeking or drunken youngsters and to greater public awareness. Still, maybe 50,000 Germans are estimated to belong to one of the dozens of, mostly small, far-right and neo-Nazi groups. And there is one bloody, inescapable certainty: at least 36 foreigners knifed, kicked, bludgeoned or otherwise done to death by far-right thugs over the past decade.

It has to stop, says Mr Schily. Once a champion of civil rights and castigator of "state violence", he is now seeking to outlaw the neo-Nazi National Democratic Party (NPD), the smallest but most vicious of three on the far right. If the Constitutional Court allows it, this would be the first time in nearly half a century that any German party has been banned.

Would it work? Many Germans have expressed doubts. They fear the NPD would simply go underground or spawn other equally repellent neo-Nazi groups. Isn't Mr Schily's move just a cheap way of showing that the government is doing something about neo-Nazism, in response to popular demand—four-fifths of Germans share it—that something should be done? No way, he says. "This is an anti-Semitic, racist, violence-supporting organisation we're talking about, and that we must never tolerate here." Germany, he says, "may still be one of the safest countries in the world. But we've got a problem. It should not be exaggerated, but it should not be minimised either. And it is getting bigger. There is nothing much he can do, he laments, about the 800 or so websites, 90% of them in the United States and Canada, that these days spread vile far-right propaganda. But what he can do in Germany, he will: "A ban on the NPD would at least prevent it from getting public funding, hinder its propaganda possibilities, and stop it enjoying other privileges usually accorded to political parties here."

Mr Schily's former Green colleagues—he changed parties in 1989—oppose what they see as a threat to the freedom of speech and right to free association. The centre-right opposition, eager to reduce competition further right, support the ban. They are also keen on Mr Schily's controversial plan to give witness protection and even a new identity to members of neo-Nazi groups wanting to leave the far-right

scene and ready to give evidence against their comrades. But there are limits to what he can do against the far right. Under Germany's highly decentralised federal system, the police (other than the federal border guard), the judiciary and the education service are all the responsibility of the individual states.

Another side of the same issue, though, is immigration. This is a federal matter. And Mr Schily is not put off by the familiar mantra that xenophobia is not to be blamed on the foreigners concerned. Maybe not, but soon after entering office, he appalled many of his left-wing colleagues by suggesting that Germany had already reached the limits of what it could live with. "The boat is full," he declared bluntly. He has since softened his tone, but he still believes that immigration policy must be made more flexible and more selective: in the plain German used by the opposition, "fewer immigrants who need us, and more of those we need". The national commission that he set up last year on this explosive topic, long regarded as taboo, is due to make recommendations by the summer, and Mr Schröder has promised legislation before next year's general election.

The two men may find they have bitten off more than they can chew. Germany's immigration law is already tough, and most Germans would like to stop the inflow altogether. Yet there are potent pressures the other way. Like much of Western Europe, Germany faces a large rise in the proportion of old people in its population. Unless they stay longer at work, it will need great numbers of immigrants—maybe 1m a year, say some studies—both to keep up its labour force and to avoid a drastic drop in welfare contributions and tax revenues. Employers are already crying out for a relaxation of the law, to let in foreign specialists to meet shortages in such fields as information technology, engineering and biotechnology. Other pressures will come when the European Union is enlarged eastward. Mr Schily will have to steer between the need for immigrants and the risks of an upsurge in xenophobia.

He or his successor, that is. By next year's general election, he will be 70, and will then bow out of politics, he says. That will be a real loss to Mr Schröder: not only a useful centre-right counterweight to the chancellor's mainly left-leaning administration, but a particularly intelligent, cultured and valued member of it.

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Ireland

It's those Brits again

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AP

The republic sprays and hopes

BRITISH sheep have achieved what British troops, even in the days of empire, never could: they have damped down Irish celebrations of St Patrick's day. With the republic on red alert for foot-and-mouth disease, the national mood is sombre and the national holiday, on March 17th, will seem more like a day of national mourning: the usual parades and marching bands have been cancelled, public parks locked, golf clubs closed, sports events called off. Field sports and fishing remain suspended, indefinitely. Travel across the Northern Irish border and to or from Britain is being discouraged as far as possible, and the *gardai*—police—are at the border to ensure that no farm animals cross it, and that vehicles or people who do are disinfected.

Ireland is taking stronger measures to keep the disease out than Britain is to stop its spread. British claims to have the outbreak "under control" are not believed, and Britain's less stringent restrictions have been sharply criticised. Calling for stronger measures there, Hugh Byrne, the Irish junior minister of natural resources, has described Britain as "the leper of Europe".

In contrast, the Irish authorities have treated the British epidemic as a national emergency. As well they may: agriculture today matters far less to Ireland than it did only 30 or 40 years ago, but—counting in food processing—it still accounts for about 11% of employment and 10% or so of both output and exports. So, though foot-and-mouth by this week had not been detected south of the border, the government had stopped all movement of cloven-hoofed animals except for slaughter, and called on the public to avoid the countryside, especially farms. For fear that travelling fans could carry the disease, it secured a voluntary ban on virtually all sporting activity, even within the country, let alone the international rugby matches planned with British teams.

The restrictions have their costs. Farmers are being saved, they hope, from higher costs still. But Ireland's famed horseracing industry is suffering. And tourism, whose big attraction is the green Irish countryside, may be hard hit, as in Britain: the Irish tourist board fears a 12% drop in its $4.5 billion yearly revenues. However, the public strongly supports the government's advice: an opinion poll last weekend (taken only in urban areas, for fear the pollsters might themselves spread the disease) found only 9% of respondents who thought the restrictions "excessive".

The big difficulty is the Irish republic's long northern border. The Irish Sea stopped foot-and-mouth reaching either part of the divided island during the big British outbreak of 1967. But this March 1st, for the first time in 60 years, this natural defence against the disease was breached when a case was found at Meigh, in South Armagh, just north of the border.

The risk is not just that of the airborne spread of the virus. For some time it has been profitable to smuggle animals south across the border and convert them miraculously into "Irish meat". That was what happened recently to some sheep from Meigh. They had been brought in from Scotland, supposedly for slaughter in Northern Ireland. Instead, some were held briefly on a farm at Meigh, and later spirited to a meat plant south of the border, where they were processed for the French market. Others stayed in Meigh—and it was one of these that was found to have foot-and-mouth.

What about those that had gone south? So far, Ireland's fears have not been fulfilled. But they, and the restrictions and accompanying costs, will remain long after St Patrick's day is past.

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EU regulation

We'll do better next time

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IT'S Lent, the season of repentance. Maybe that explains a curious document just issued by the office of Romano Prodi, president of the European Commission, which is to be considered by European Union leaders when they meet in Stockholm on March 23rd and 24th.

The document is an oblique response to the frequently repeated complaint that the EU burdens its citizens and businesses with red tape. The authors ask how the Union can achieve "the right regulatory environment". They conclude, perhaps not surprisingly, that "a profound change in administrative and regulatory culture" is needed. However, elsewhere in the paper there is every indication that the commission is not ready for such conversion—at least, like St Augustine, not just yet.

Among EU institutions, the commission alone has the formal right to propose legislation, which is then scrutinised by the national governments, in the form of the Council of Ministers, and the European Parliament. And the commission jealously guards this prerogative. For it to disavow its regulatory lusts would be a prodigious act of self-denial. Unsurprisingly, its new paper offers no commitment to stem the flow of legislative proposals that pours forth from Brussels. Instead, there is that familiar, limp promise to do things "better".

The commission has made such promises before. The paper itself documents various (ineffectual) attempts to simplify and improve EU regulations since 1985. By its own admission, the commission is a repeated sinner, well-used to a ritual bout of breast-beating. So does it now, repentant at last, promise to undo its past misdeeds? No, the aim is better regulation, not deregulation, the paper declares.

One reason why bad rules get set in concrete as bad law is that the EU's legislative machinery is built that way. In the haggling among the rival bodies, ambiguities are deliberately introduced because that may well be the only way to get something accepted at all. Another fault is that those who advocate some proposal or other are often, in fact, those who pass it into EU law. Thus a proposal will be championed by an individual department of the commission; passed to a collection of ministers from the 15 national governments, who—because they are all, say, environment ministers—share the same regulatory instinct; and then move on to a European Parliament committee whose members have similar interests.

The ill-effects of a well-intentioned proposal may not be realised until after it has gone through. Only in the nick of time, last November, did the EU countries' farm ministers wake up to the implications of regulations which the social-affairs ministers were about to approve limiting the time people could spend on "vibrating machinery"—which down on the farm means tractors. A new proposal on chemicals, much applauded by the Swedish government, now in the presidency of the council of ministers, will provide an interesting test of whether the EU can curb its regulatory appetite.

Could not the governments instruct the commission to rein itself in? Well, they could. But the betting is that at Stockholm they will merely applaud the good intentions expressed in its new paper. After all, to tell the commission to rethink regulation from the start would be to admit that the promises the ministers themselves made at Lisbon a year ago to cut red tape and make the EU economy more competitive have so far proved to be little but hot air.

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Portugal

A flood of misery

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WINTER has been cruel to Portugal, bringing floods, one large disaster and relentlessly bad news about the economy. No one will welcome the coming of spring more than Antonio Guterres, the heavy-hearted prime minister.

The country is in a sombre and dejected mood, as the bodies of more than 50 people who died when a road bridge over the Douro river collapsed two weeks ago continue to be washed ashore hundreds of kilometres away on the coast of northern Spain. Nothing could be further from the euphoria of three years ago when Mr Guterres, one of the new generation of modernising Socialists, led an unaccustomedly optimistic Portugal into the single European currency.

AP

Douro bridge, depressed prime minister

The bridge tragedy, in which a bus and two cars were swept away, has focused a harsh light on inadequate infrastructure and the gulf in development that still separates Portugal from most of its European Union partners. And the gap is growing bigger. In 1998 and 1999, described by Lisbon economists as the “nirvana years”, plummeting interest rates, low inflation and strong economic growth helped create a national illusion that Portugal was hurtling towards a level of prosperity that would soon equal that of its rich European peers. Now, official forecasts that the economy will grow less than the EU average over the next two to three years, widening instead of narrowing the gap, have had a sobering effect.

Average income per person has grown from 56% of the EU average in 1986, the year Portugal joined the Community, to about 76%. That is quite a feat in less than a generation. But Abel Mateus, a respected economist, estimates it will take another 20 years for Portugal to catch up, in the best possible circumstances—and in likelier conditions the gap could still be near 20%.

Meanwhile, the EU is not convinced that Portugal is going the right way about catching up anyway. EU finance ministers grudgingly approved the government’s euro-zone stability programme this week but issued a stern warning that the soaring external deficit was a threat to sustained growth.

Not for the first time. Admonitions from the EU to curb government spending, reconsider tax cuts, moderate wage rises, and try harder to improve productivity have been falling on Portugal almost as unremittingly as the rain. Mr Guterres has only narrowly escaped a formal reprimand of the kind recently meted out to the Irish. He must wish he had their answer to it. The two countries are not unlike: small, peripheral, Roman Catholic and till recently highly dependent on farming. But Ireland has the fastest economic growth and biggest budget surplus in the EU. It can afford to cock a snook at Brussels out of the courage of its policy convictions. Portugal, expecting GDP growth of 3% or less this year, and no budget balance before 2004, can only acknowledge that it “shares the European Commission’s concerns”, as Joaquim Pina Moura, the finance minister, had to admit this week.

Closer to home, President Jorge Sampaio, he too a Socialist, said openly when he was sworn in for a second term last week that Portugal must change course to avoid being permanently left behind. Domestic demand, encouraged by low interest rates, had gained too much weight in the economy, he said, inflating household debt and swelling external deficits. Meanwhile, soaring labour costs and low productivity were pricing Portuguese exports out of the market. That time the admission came from Mr Guterres himself: “a lucid analysis,” he said.

Nor are economics his only source of woe. In Jorge Coelho, who resigned as public-works minister after the bridge disaster, he lost his closest political ally. Many other Socialist heavyweights have fallen by the

wayside since the party took office in 1995. And Mr Guterres's cabinet of relative lightweights cannot rely on an outright majority in parliament. He handled the good times well, imbuing his fellow citizens with a newfound confidence. He has still to prove that he can lead them through worse times too.

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Italy's voters say what matters

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"WHAT do you expect from Berlusconi?" "Incredible egonomic [sic] development," replied a cartoon character in the left-leaning *La Repubblica* the day after Italy's parliament was dissolved for an election that is now fixed for May 13th. It was quite an achievement, in Italian terms, for a parliament, and its centre-left majority, to have survived the full five years that this one had. But it meant two changes of prime minister, and—on present form—the voters are ready for a bigger change: to Silvio Berlusconi, the right-wing tycoon with a party of his own, Forza Italia, to go along with his football team, television and other media interests, financial companies and much, much else, some legal troubles included.

Mr Berlusconi's ego no one doubts. But perhaps unwittingly *La Repubblica*'s cartoonist hit on the reasons for the optimism on the right. Whatever the particularities of its politics, Italy's voters really are much like any others. They care a lot about the things that directly concern them, and rather little about the great public issues, or (more often) the nine-day scandals, that so enthral the media. And they have nothing against ego whatever.

The great *tangentopoli* ("bribesville") scandal of the 1990s was an exception. It made a real public impact. Hence, not least, the victory of the now outgoing "Olive Tree" coalition, which seemed, and to some degree was, a healthy new force in Italy's often murky political life; it got Italy into Europe's single currency. Yet the mud that has been chucked at Mr Berlusconi seems to worry the electorate even less than, at least outwardly, it does him.

Witness an opinion poll published recently in the *Corriere della Sera*. What really concerns voters? Jobs: 38% of those who lean left, 27% on the right. Next, and notably high, on the list: crime—21% and 33% respectively from the two sides—and its real or alleged connection with immigration, an issue on which the sometime separatist Northern League, one of Mr Berlusconi's allies, has eagerly leapt. And then? Yes, health care and pensions. And maybe—it's a guess—the fact that not one Italian football team is left in the European Champions League. And how many care about the much-publicised conflicts between the tycoon's business life and his career in politics? Again on poll evidence, most Italians do not give a damn.

And then look at the public view of him and of his rival, Francesco Rutelli, a former mayor of Rome. Both men score well, and fairly equally, on their readiness and ability to govern. The big differences of perception concern their characters. The ex-mayor is *simpatico*, say 74%; the tycoon distinctly is not (23%). But who is strong and a likely winner? By a mile, Mr Berlusconi. The figures do not prove the voters right. But they are the ones who vote. And ask who normally wins elections: Mr Nice Guy or Mr Tough?

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A better way to run a railway

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The companies that operate Britain's trains are making moves to take over Railtrack's job

SIX months after a crash at Hatfield that killed four people, the chairman of the Strategic Rail Authority (SRA), Sir Alastair Morton, admitted on March 13th that the network is still a mess. Trains, he said, are still subject to long delays. There is no hope that the network will be back on schedule by Easter as originally promised. But something good may emerge from the chaos: the structure that the Conservatives imposed on the rail industry is likely to be binned, in favour of a more rational one.

Right now, though, relationships have not looked worse since the industry was privatised five years ago. Sir Alastair has fallen out with the minister of transport, Lord Macdonald, over the delay in approving his authority's decision to award the east coast main line to Great Northern and Eastern Railways. Sir Alastair's notoriously tricky relationship with his co-regulator, Tom Winsor, has got no better.

Train operators are furious about Railtrack's inability to maintain and manage the track. They are also unhappy that the renegotiation of their franchises has been so delayed. The SRA is now not planning to produce its strategic agenda until the autumn, after the main franchises are meant to have been agreed. By any standards, this is an odd way to plan the expansion of the railway system promised by the government.

It is now clear that the deputy prime minister, John Prescott, who has carried the transport portfolio like a millstone, will be handing it on after the election that is expected in May. Patricia Hewitt, now a minister of state at the Department of Trade and Industry, is tipped as a possible replacement. Whoever succeeds Mr Prescott, Tony Blair is likely to take a closer interest in transport than he has in the past.

At the centre of the railway industry's problems is the division of track from trains which sets up an adversarial relationship between Railtrack and the train operating companies. Not only does it mean that the two sides do not work naturally together on day-to-day matters of maintenance, or on longer-term issues of investment. It also involves many man-hours as each side monitors the other's performance, checking on whether the complex performance schedules have been met. In its southern zone alone, Railtrack has more than 50 staff engaged in attributing blame for train delays.

The chairman of the Association of Train Operating Companies, Richard Brown, believes that track and trains should be reunited. In a study published this week by Transport 2000, called "The Railways: Where do we go from here?", he points out that National Express, the train operator he heads, already runs three vertically integrated franchises in Australia. The State of Victoria, which owns the infrastructure, leases the track and signalling to train operators on long-term leases. In a unified structure, he argues, contractual relationships are simplified and train operators are in sole control of their performance.

The chairman of the Commission for Integrated Transport, David Begg, who is an influential adviser to

the government, believes that many of the tensions within the industry could be eased by a move to a more rational structure. He thinks that the offices of the two rail regulators should be merged and that operating companies should be encouraged to lease from Railtrack the lines over which they run.

Commercial pressures could well decide the issue because the train operating companies insist that there must be change. They are no longer prepared to sign up to 20- or 30-year franchises as long as a key element of risk, the state of the track, remains outside their control. Moir Lockhead, chief executive of First Group, one of the three largest operating companies, says his company is exploring with both Railtrack and the SRA the possibility of re-integrating the industry. The other two big companies, Stagecoach and National Express, have also approached the SRA to talk about integrating track and operations. Sir Alastair did not choose to reveal this at the press conference at which he launched the SRA's agenda. But he acknowledged that there could be a pilot trial of vertical integration in Scotland.

If all this goes ahead, the industry would be run by four or five large regional operators in sole charge of train operations in their areas. The current financial performance regime which penalises train operators and Railtrack and pits them against one another would be scrapped. Railtrack would become in essence a large property company with minor operational responsibilities.

There would be many advantages to this—not least that it might persuade the Treasury to stop trying to micro-manage the industry. The agenda that the SRA published this week contains a typical reservation from the Treasury about the SRA's proposal that "15 out of 16 trains run within punctuality standards and satisfy the demands of passengers for quality of service." Lord Berkeley, chairman of the Rail Freight Group, has a point when he says that the Treasury should "stick to counting beans" and leave the regulator to set the standards of service he expects to see delivered.

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London Underground

Ken has all the aces

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The Mayor of London is going to win his fight with the government over London's underground

Get article background

THOSE who take on Ken Livingstone, London's mayor, at political poker, rarely come away with all their fingers intact. Tony Blair knows this to his cost, having seen his mayoral candidate, Frank Dobson, beaten humiliatingly in last year's election. Now it is the turn of the chancellor, Gordon Brown, to lose a few of his digits. Under pressure from Mr Blair, Mr Brown is reluctantly preparing to compromise over his insistence that a public-private partnership (PPP) should run London's underground system.

At present, the Tube is owned and run by the public sector. Its management has always been awful, thanks in part to the conflicting ambitions of its masters. A former Treasury permanent secretary recently explained that the reason why his old department had always delighted in the Tube's poor management was that it provided an excuse for the Treasury's lamentable record on investment.

The aim of the PPP was to transfer responsibility for and control of track, signals and stations to three privately-owned consortia on 30-year contracts, while publicly-owned London Underground operated the trains—and to put the scheme in place before responsibility for the Tube was finally handed over to the mayor on March 31st. But Mr Livingstone was having none of it. He made the Tube's future a big issue in his mayoral campaign and threatened to mount a judicial review. And, faced with the prospect of a messy court case in the run-up to a general election, with around 20 marginal Labour seats in London at stake, the government has decided to retreat.

Much of the credit goes to Robert Kiley, an American who turned around New York's subway system, and whom Mr Livingstone appointed as London's transport commissioner. He took against the PPP from the start. It was, he said "fatally flawed", and would create an unworkable management structure. "Implementation of the PPP would be unsafe, inefficient and prohibitively expensive," he concluded in a report to the mayor. His determination to face down the government has vindicated Mr Livingstone's description of him as even "meaner than I am".

The Treasury's inability to persuade anyone to support the PPP has undoubtedly contributed to its difficulties. The National Audit Office, which investigated the PPP, said the case for franchising the infrastructure remained "unproven" and cast doubts on the costs of breaking up the network. The Health and Safety Executive said that 69 significant safety issues needed to be addressed before the PPP could be allowed to proceed. Parliament's transport select committee dismissed the PPP as "a convoluted compromise".

The way the negotiations are going, it looks as though the PPP is going to be modified drastically. The government has offered the Tube £600m ($880m) a year for the next 7 1/2 years—a huge increase—in return for a guarantee that this investment will be tied to performance targets.

The sticking point remains the extent to which risk and control will be transferred to the infrastructure companies. Mr Kiley is willing for the infrastructure companies to manage their investment programmes subject only to his say on priorities, but there is still argument over who should control and direct maintenance of the track. These issues should be resolved over the next few days. According to a source close to the negotiations, the Treasury has moved inch by inch from insisting on "full transfer of risk" to "appropriate transfer of risk" and now to "sufficient transfer of risk".

In the end all sides will, no doubt, proclaim victory. The government will say that, though modified, the PPP is still in place and will bring in more than £7 billion of private-sector investment. Mr Livingstone and Mr Kiley will point out that they have got unified management control. As for the passengers, they can only be glad that after 50 years of under-investment, the Tube may at last be managed and financed

properly.

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Barely sensational

Mar 15th 2001
From The Economist print edition

PROMINENTLY displayed near the entrance of the Saatchi gallery, a hyper-trendy incubator of modern art in north London, are some framed mementoes of its previous brushes with authority. These include reports of Mayor Rudolph Giuliani's attempts to prevent controversial works from the gallery from being displayed in New York. He failed. So perhaps the officers from the Metropolitan Police who visited the gallery last week ought to have thought more carefully before complaining about its current contents—thus offering it yet more free publicity.

When the police pick a fight with artists, they tend to lose, and end up embarrassing themselves. This is unlikely to prove an exception. The Saatchi was warned that some of the photos in its current exhibition might make it liable to charges under the Protection of Children Act. The photos are by Nan Goldin and Tierney Gearon, and depict children in various states of undress. In one, Ms Gearon's son urinates in the snow. The gallery has (surprise) refused to remove them.

In the perennial battle between free expression and censorship, this is a minor and one-sided skirmish. As outraged liberals have queued up to point out, images such as Ms Gearon's appear in family photo albums across the land. Child nudity is a staple motif in religious art; fortuitously enough, it features in a display of photographs by MPs that has just opened in the House of Commons. But the case testifies to the hysteria that currently surrounds paedophilia in Britain.

The police acted after receiving three complaints from members of the public. The *News of the World*, a tabloid newspaper dedicated to the exposure of paedophiles, fulminated that "Upper-crust 'art lovers' are paying £5 a head to ogle degrading snaps of naked children plastered across the walls of one of Britain's most exclusive galleries." Such insinuations led Ms Gearon to protest the "innocence" of her photos, and devotion to her children.

The philistines in this case may be hypersensitive, but the aesthetes are being disingenuous. St Paul points out that "nothing is unclean of itself, but to him that esteemeth any thing to be unclean, to him it is unclean"—a rule of thumb that would-be censors such as Ms Gearon's critics would do well to remember. Her photos are pornographic only to the extent that their viewers are paedophiles; but they are not entirely "innocent". They raise questions about the way adults perceive children's bodies. Art is art to the extent that it is interesting—as artists should be brave enough to argue.

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Agriculture

The carcasses pile up

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From The Economist print edition

The government is widening the cull of animals in an attempt to contain the foot-and-mouth outbreak

WHEN the first cases of foot-and-mouth disease were discovered in Britain, the government reacted sharply, ordering culls, banning trade and closing off much of the countryside. Not sharply enough, it seems. On March 15th, the agriculture minister, Nick Brown, implicitly admitted that more needed to be done, when he ordered a cull of tens of thousands more apparently healthy animals on top of the 205,000 animals already killed or earmarked for slaughter. The Ministry of Agriculture, Fisheries and Food said that by the morning of March 15th there had been 233 confirmed cases of the disease in sheep, cattle and pigs.

Some ministers are still arguing that the disease is concentrated in just one or two parts of the country. But that no longer seems to be the case. Although the highest proportion of cases has been reported in Cumbria in north-west England (see map), of the 25 new cases reported on March 14th, ten were in Cumbria, while four were in Dumfries and Galloway in Scotland, two apiece in Devon and County Durham and the rest were scattered around England.

There are severe restrictions on the movement of animals around Britain. Some farmers are having to watch their sheep die of starvation in their fields because they are not allowed to go near them. But with a disease as infectious as foot-and-mouth, which can be carried by the wind, even these measures are looking ineffective.

The opposition Conservative Party is broadly supporting the government's actions, although William Hague, the leader of the opposition, had been pushing for more animals to be slaughtered. Other measures, such as bringing in the army to help with the removal of slaughtered animals, are also being considered, and will have cross-party support. This means that so far Tony Blair's government has escaped being blamed for the crisis. Ministers also believe that the spread of the disease need not prevent the government from calling a general election in May, as it plans. But that may change if the

situation worsens.

Farmers are even gloomier this week than they were last week. More and more countries—including the United States, Canada and Australia—have banned the import of all livestock products from Britain and the EU. But although the number of animals destroyed or earmarked for destruction seems high, it amounts to only 0.33% of Britain's total stock of about 7m pigs, 44m sheep and 11m cattle. And, from the national perspective, agriculture is a relatively unimportant industry these days.

The bigger worry, now, is the effect that the crisis is having on other businesses and on the rural economy as a whole. The haulage industry is suffering. All livestock markets have been suspended, so businesses that rely on them are also under threat. But it looks as though the most important victim is likely to be tourism.

Whereas agriculture earns revenues of about £9 billion ($13 billion) a year, tourism brings in £63 billion. According to the English Tourist Council (ETC), around £12 billion of that is spent in the countryside. Because of the restrictions placed on movement in the countryside and the closure of the national parks, many hoteliers, restaurants and outdoor-activity centres have already started laying off staff. The ETC says that rural tourism is running at around 25% of its normal level, which means that the industry is losing revenues of about £100m a week.

Popular tourist destinations such as the Peak District, Dartmoor and Cumbria, which includes the Lake District, have been particularly badly hit. The Cumbria Tourist Board estimates that 350 jobs a week are currently being lost in tourism. The National Mountain Centre in Snowdonia, Wales, is now completely closed, although it should be getting ready for its busiest weekend of the year. If the present restrictions are still in place by the Easter weekend in the middle of April, then a lot of businesses which rely on tourism are going to start closing down.

Under the compensation arrangements that the government has put in place so far, only farmers can claim any money for losses they have suffered, and they get it only for animals destroyed. But an increasing number of businesses in the countryside have started asking why the government should not also pay compensation to damage inflicted on innocent bystanders such as themselves.

The government is rattled enough by the growing sense of grievance to have set up a "rural task force". Chaired by the environment minister, Michael Meacher, it met for the first time on March 14th. It discussed giving rural businesses temporary VAT relief, and the possibility of bringing forward a £100m injection that is already planned for market towns. But the idea of compensation for rural businesses was ruled out.

Mr Blair was already unpopular in the countryside before all this started. Now the foot-and-mouth crisis seems sure to entrench his reputation as an irredeemably urban man.

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Bagehot

More sinned against than spinning

Mar 15th 2001
From The Economist print edition

Get article background

IF THERE is a hell, please let its gatekeeper be a British civil servant. If damnation is everlasting, let that civil servant be as forgiving as Sir Anthony Hammond, KCB, QC. This was the kindly mandarin Tony Blair asked to look into how Srichand Hinduja, a rich Indian, got a British passport at his second time of asking, having been turned down the first time because of his frequent absences from Britain and doubts about his character. Mr Blair ordered the investigation on January 24th, the day he sacked Peter Mandelson, his Northern Ireland secretary and close friend. The prime minister gave no reason for casting Mr Mandelson out, but the political circumstances were clear enough. An unfriendly question tabled in Parliament had put Mr Mandelson under a cloud of suspicion. In 1998 he had been the minister responsible for making a success of the Millennium Dome. Did he help Mr Hinduja to get a passport because he had just offered to sponsor its "Faith Zone"?

Well, apparently not. Sir Anthony's report, published last week, rains exoneration on every vulnerable head. The passport applications of Srichand Hinduja and his brother, Gopichand, were handled "properly". Neither Mr Mandelson nor any other minister exerted "improper pressure". Mr Mandelson made no "representations" on the Hindujas' behalf. There is "no evidence" of any connection between their quest for citizenship and the loot they forked out for the Dome. Sir Anthony wishes for better record-keeping in ministers' private offices. But otherwise, by and large, everyone is in the clear.

You might expect a government that was up-ended by this affair to greet such exculpation with gasps of relief, if not joyous incredulity. Its joy is confined because a report that reflects well on Mr Mandelson cannot reflect well on the man who dismissed him. Indeed, before Sir Anthony reported, one friend had called Mr Mandelson's sacking a British Dreyfus affair. This was, to put it mildly, an exaggeration: even at his metropolitan suavest, not even Mr Mandelson would equate exile to his Hartlepool constituency in the north of England with solitary confinement on Devil's Island. But the Dreyfus comparison is revealing in another way. When Dreyfus was cleared, he struggled for reinstatement by a French high command too pig-headed to admit its original error. Mr Mandelson, by contrast, says he has no desire to return to government. And Mr Blair shows no sign of asking him back.

If Mr Mandelson did no wrong, why did the prime minister terminate him with such irreversible prejudice? Do not look to Sir Anthony to resolve this riddle: the sacking was beyond his terms of reference. There is no point either in putting the question to Mr Blair. A prime minister is free to make and unmake ministers as he pleases. Mr Blair will neither explain his decision nor reverse or apologise for it. As for Mr Mandelson, he apologises only for having played a part in "a muddle rather than a misrepresentation".

This careful choice of words strengthens the impression that his sacking turned less on whatever Mr Mandelson did for Mr Hinduja in 1998 and more on the confusing account he rendered when these actions came under scrutiny at the start of this year. His story certainly chopped and changed. He was certain that he had never spoken directly to Mike O'Brien, a Home Office minister, about Srichand Hinduja's passport application; then he remembered he had; then he forgot again. Was this concealment or genuine muddle and forgetfulness? Sir Anthony concludes that it was the latter, which suggests in turn (though Sir Anthony cannot say this) that Mr Mandelson is the victim of a tragedy of errors. He did no wrong but was dismissed because Mr Blair either (a) misinterpreted a genuine lapse of memory as an attempt to mislead or (b) panicked at the adverse publicity generated by an innocent man's convolutions. In either case, Mr Blair's defenders would argue in mitigation that this victim was no innocent: Mr

Mandelson had made himself vulnerable by deliberately concealing the secret loan from a fellow minister, for which he was sacked once before, in 1998.

If anything, it is all rather worse than Sir Anthony makes it seem. No reader of his report can fail to be impressed by its author's preference for giving the benefit of doubt whenever it arises. So when he says that Mr Mandelson made no "representations" on Srichand Hinduja's behalf, and that his passport was handled "properly", it is worth wondering exactly what he means. Fortunately, Sir Anthony is as diligent as he is charitable: the report sets out clearly what actually did happen when Mr Hinduja asked Mr Mandelson in 1998 whether a second passport application might be successful.

What happened is that Mr Mandelson "probably" did telephone Mr O'Brien about Mr Hinduja. He probably also contacted Matthew Laxton, one of Mr O'Brien's officials. There followed an e-mail from Mr Laxton to Andrew Walmsley, director of the Nationality Directorate, which started with a reminder that Mr O'Brien was "keen to adopt a more positive approach to citizenship" and ended by wondering whether Mr Hinduja would be likely to benefit from this "positive approach" if he were to apply again. In August, Mr Walmsley replied—surprise—that, yes, a new application would indeed be looked upon favourably. The earlier objections had melted away. Mr Hinduja submitted his application in October and was British by March. His case was dealt with by Mr Walmsley in person, who may have cut some corners because of ministerial interest—but only, Sir Anthony concludes, in order "to be helpful".

Nothing could be more commonplace, the worldly-wise would say, than rich people using political connections to cut their way through Britain's immigration bureaucracy. But remember Max Weber's argument in bureaucracy's favour. It enables decisions to be arrived at by rules rather than "individual privileges and bestowals of favour". The opposite happened here.

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The wealth effect

Mar 15th 2001 | ABERDEEN
From The Economist print edition

THE rich often have uneasy relationships with their neighbours. So it is with Aberdeen and Edinburgh.

About 4,000 of Aberdeen's labour force of 220,000 claim unemployment benefit. The jobless rate is 1.8%, the lowest in Scotland and about as close to full employment as you can get. Those in work earn more, on average, than any other Scots, and male average earnings are close to the top of the British pay league.

In the city's Jobcentre, racks of cards seeking van drivers, security staff and hotel workers look as though they are on permanent display. Highly-paid skills are in short supply too. A nearby recruitment agency advertises engineering vacancies on salaries of £35,000.

Aberdeen, which has been booming since oil was first discovered beneath the North Sea in 1969, is now bursting at the seams. Its green belt, which restricts building in countryside close to the city, is strangling industrial and housing development. Even so, there still seems to be potential for growth. A recent survey by Newidiem, a Cardiff-based economics research company, found that it was the second most competitive business locality in Britain after London.

The oil wealth affects the way Aberdonians think of their city's relationship with the rest of the country in two ways. First, they see Aberdeen as being part of the world rather than of the British economy. A city-centre solicitor's office, for example, boasts that apart from having offices in Edinburgh and Glasgow, you can also use its services in Baku, Istanbul and the Falkland Islands. This, says Lewis Macdonald, Labour member of the Scottish Parliament for Central Aberdeen, "adds to the feeling of not being well understood in the rest of Britain". It also means that Aberdeen benchmarks itself not against other British cities, but against other oil cities, such as Stavanger in Norway, and frets that its infrastructure is way behind these rivals in the race for oil industry investment.

Second, the city knows that the vast oil wealth it has helped to suck out from the North Sea (oil tax revenues over 30 years add up to about £150 billion) underpinned the British economy in the 1970s and 1980s. People reckon they have had precious little thanks and not much return for this effort. Aberdeen's two newspapers regularly run articles complaining about "central-belt bias", meaning that the city gets a raw deal compared with Edinburgh and Glasgow. Geography helps to create a sense of isolation. Hemmed in by the sea and mountains, Aberdeen is 65 miles north of its nearest city, Dundee. One main

road and one rail line connects it to the south.

According to Gordon McIntosh, the city council's director of economic development, "People in the central belt look at Aberdeen and say that there's nothing wrong up there." Ann Begg, the Labour MP for South Aberdeen, says her constituents complain that the Scottish executive gives less money to the city's council and health service than it does to other areas, and that through the centralised local business tax system, the city gets out less money than it pays in.

A particular gripe is that local road and rail services are poor. Transport gets snarled up at rush hour. The council is putting together a plan to spend £250m on local transport. But since years of campaigning have failed to persuade governments either to extend rail electrification north from Edinburgh or to build a western by-pass, there is doubt that Edinburgh will be prepared to pay for it.

At first sight, this grievance makes it surprising that Aberdeen, unlike the countryside to the north and south which is the heartland of the Scottish National Party, has never been captured by the SNP. The big political prizes in the city—parliamentary seats and control of the council—occasionally slip from Labour's hands to the Conservatives and the Liberal Democrats, but the nationalists never get a look-in.

Actually, the reason for this is all too obvious. Aberdonians may think that government from London and Edinburgh gives them a bum deal, but government from Edinburgh alone could be a lot worse.

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Unemployment

Hard Labour

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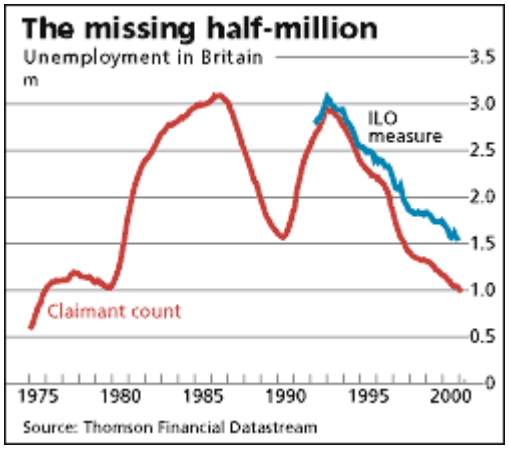
The fall in claimant unemployment to below a million fulfils one of the government's aims but sets it a more testing task



IN THE 1979 election that swept Mrs Thatcher to power, the Conservatives made much of the rise in unemployment above a million with the slogan "Labour isn't working". Now, in the run-up to another election, Labour has presided over the first fall in the number of people claiming unemployment benefit to below a million since 1975. "Labour is working" was, in effect, the message from ministers who lined up to take credit for the good news. Tony Blair, the prime minister, hailed the achievement as "a significant milestone" towards Labour's new ambition of "the modern version of full employment".

The celebration of the fall in claimant unemployment is a bit rich in view of the contempt that Labour heaped upon this measure of joblessness when it was in opposition. In 1995, Harriet Harman, then shadow employment spokeswoman, welcomed a report by the Royal Statistical Society, which said the claimant count was an untrustworthy indicator of unemployment. In office in 1998, the Labour government made the alternative, internationally comparable definition of unemployment by the International Labour Organisation (ILO) its preferred measure. Unlike the claimant count, this is not affected by changes to the benefits regime. Instead, it is calculated from a regular survey of households which asks people whether they are looking for work and are available to start a job.

According to the ILO measure, unemployment has fallen not to below a million but to 1.5m. The main reason for the difference is that the ILO measure includes many more women who are not eligible for unemployment benefits under the current rules. The ILO measure has also fallen less rapidly than the claimant count since the 1997 election—by 27% compared with the 40% decline in claimant unemployment. Furthermore, both measures of unemployment fell a bit faster in the last four years of Tory rule.

Even so, it would be churlish to deny Labour its moment of triumph. What's more, the further decline in unemployment under Labour has not triggered pay pressures that threaten inflation. Headline earnings growth remains just below the 4.5% rate the Bank of England thinks is compatible with meeting the government's 2.5% inflation target. However, as unemployment falls, so it becomes harder to make further inroads into the number of people who are still jobless. Increasingly, they comprise the hard-to-employ, lacking in skills and long detached from the world of work.

To achieve full employment, Labour now has two groups of people in its sights. In the first group are those "hard-to-employ" people; in the second, other people of working age who are receiving benefits—such as lone parents. In both cases, the government intends to extend the "sticks-and-carrots" approach of the New Deal, which does not allow young people simply to stay on benefit. In a similar spirit, people aged between 25 and 50 who are long-term unemployed now face the threat of losing unemployment benefit for six months if they repeatedly fail to take up job or training opportunities. Lone parents claiming benefit will have to attend an interview to explore work options. Mr Blair describes this as a regime "where rights and responsibilities go together". Others call it workfare.

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Education

Operation Kangaroo

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Staff shortages have sparked industrial action in schools and are driving head teachers to recruit foreigners

LUCKY St Ivo comprehensive school in Cambridgeshire. A certain John Major is helping to beef up its A-level politics teaching. Less fortunate schools, unable to draw on the goodwill of a local former prime minister to augment the staff numbers, are finding life increasingly difficult.

Over the past few years, the shortage of teachers has become schools' biggest problem. Now, disruption by teachers will make it worse. Two of the biggest teaching unions went on strike in London and Doncaster in protests at the rise in staff shortages. By next week the disruption will have spread to five other boroughs; ballots are being held in 19 more. Members will stop covering unfilled posts and absences for more than three days. About a third of all England's schools could be affected, leading to four-day weeks and short days.

For a government that wants to go into the forthcoming election boasting about its educational record, this is embarrassing. David Blunkett, the secretary of state for education, has denounced union activists for "abandoning children" and jeopardising pupils' chances in this summer's GCSE exams. But he must also worry that the government's attempts to attract more graduates to teaching have not yet paid off.

Over the past two years, the government has tried to lure graduates into teaching with "golden hellos", £6,000 training salaries, accelerated promotion schemes, performance-related pay and cheaper mortgages. But there are too few people to fill the existing jobs. According to a recent survey, there are now 10,000 unfilled permanent jobs in secondary schools in England and Wales. And this week Mr Blunkett pledged yet more money to woo back former teachers with offers of £4,000 at the end of a year to teach subjects where shortages are worst.

The booming economy and tight labour market are to blame: graduates, especially women, can choose from plenty of other better-paid careers. Former teachers vanish into all sorts of other jobs: they include pop stars such as Bryan Ferry, Sting and Mark Knopfler, that famous presenter, Chris Tarrant, and that rather less famous schools minister, Estelle Morris.

That's a problem for the public sector as a whole, but teaching has some specific difficulties. It is an ageing profession, with 40% of teachers now aged 45 or over. John Howson, the director of Education Data Surveys, estimates that more than 8,000 teachers a year will reach retirement age over the next decade. In the five years from 2014, that figure could rise to a massive 17,000 a year if the retirement age is left unchanged. In other words, the situation can only get worse.

Unless, that is, the British Empire gallops to the rescue, again. In much the same way as the booming economy of the 1950s sucked in thousands of West Indians to do the jobs that Britons no longer wanted to do, so now schools are looking to the white Commonwealth to fill those teaching jobs that today's Britons spurn. Teacher-supply agencies now scour New Zealand, Australia, South Africa and Canada. Over the past ten years, about 25,000 teachers have been recruited from these countries.

The leader in the field is TimePlan, with a turnover of £30m and 170 staff. Last summer, in "Operation Kangaroo", the company took four heads from the London borough of Croydon to Australia to recruit 30 teachers. Last week, TimePlan was helping five different boroughs to recruit 150 teachers in various parts of the world. It is easy to see what persuades these so-called "backpacker" teachers to leave home for Britain's schools. In certain subjects in Australia, there is a surplus of teachers. South African teachers are paid up to three times as much in Britain as they would be at home.

But these measures are marginal. Only an economic slowdown will provide much relief for schools. If unemployment rises, teachers' pay packages will begin to look increasingly attractive alongside more

precarious private-sector jobs. Presumably that will happen sooner or later—assuming, of course, that Gordon Brown hasn't abolished the economic cycle.

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The politics of fishing

Battered

Mar 15th 2001 | PETERHEAD
From The Economist print edition

Scotland's fishing industry and Parliament are facing up to the same problem: how to reconcile self-interest with a pressing need to co-operate

AN ANCIENT food-producing industry is in crisis. Creatures are threatened with premature slaughter, and a way of life that has sustained communities for generations is in jeopardy. Aggrieved industry leaders decry European regulations and clamour for subsidy. Fuzzy nostalgia ensures popular support for their cause. Hapless politicians struggle to maintain a united front. These are the basic elements of the foot-and-mouth crisis—but also of an ongoing furore concerning Scotland's fishing industry. Neither the industry, nor Scotland's Parliament, seems likely to emerge with much cause to celebrate.

Around 70% of Britain's fishing business is based in Scotland. Peterhead, north of Aberdeen, accounts for 30% of Scottish fish landings, and is the biggest whitefish (cod and haddock) port in Europe. But the livelihoods of some fishermen on Scotland's north-east coast have been threatened by an EU prohibition on fishing in 40,000 square miles of the North Sea (see map), which came into force last month and lasts until the end of April.

The ban is designed to enable the dangerously depleted cod stocks to recover, and avoid the long-term blight which over-fishing has caused in once-abundant fisheries off the coast of Newfoundland. Trawlermen in Peterhead and elsewhere say this edict has forced them into waters populated by haddocks too young to land, so that up to 90% of their catches have to be thrown back, dead. Worse, culling the immature fish threatens the industry's long-term survival.

To protect (they say) the fish and their futures, some crews have voluntarily remained in port for the last few weeks. In return for this environmental conscientiousness, the fishermen want £5m in compensation from the Scottish executive. John Buchan, of the Fishermen's Action Committee, warns that, if the boats are forced back to sea (as has begun to happen), or out of it altogether, the north-east of Scotland faces mass unemployment. Peterhead fishermen last week sailed en masse to protest about their plight in Edinburgh.

But Rhona Brankin, the fisheries minister in the Scottish executive (and the wife of an *Economist*

journalist), insists that compensation would be a wasteful short-term fix. The problem, she says, is that there are too many fishermen and too few fish. She has offered £25m for a voluntary cull of the Scottish whitefish fleet, plus some cash for scientific research and technical measures to help reduce the number of fish that have to be thrown back. These proposals, Ms Brankin says, should ensure the industry's long-term viability. Some parts of the industry are keen on the generous decommissioning money. Peterhead's irate fishermen responded by burning the minister in effigy.

But the fishermen's concern for the threatened haddock is not entirely convincing. Environmental agencies have said for decades that North Sea stocks were dwindling. There are now around a quarter as many cod in the North Sea as there were 30 years ago. Most of the Peterhead fishermen blame the state of North Sea fish stocks on incompetent scientists, global warming, even rapacious cod-eating seals—and above all on the EU's Common Fisheries Policy, which, they claim, fishermen from other countries routinely flout. But at least one Peterhead deckhand is prepared (anonymously) to admit that Britain's fishermen have "raped" the sea for too long, and that these problems are self-inflicted.

Politicians in glass houses

Fishing has always been a risky business, both for its practitioners and for politicians. EU fishermen, and their representatives, have not been able to emulate the beneficial co-operation that their counterparts in Iceland developed, after the last of the infamous "cod wars". The basic problem has always been the overwhelming temptation for individuals to backslide on agreements: co-operation never seems worthwhile until it is too late. The end result is a good lesson for Scotland's executive—whose ecology is as fragile as the fishing industry's, and whose survival likewise depends on enlightened self-interest.

The executive is a coalition between Labour and the Liberal Democrats. Last week, partly through mismanagement by Labour, and partly because four Liberal Democrat MSPs voted against it, the executive contrived to lose its first parliamentary vote, which came out in favour of giving the fishermen the compensation they want. In the aftermath, one Lib Dem minister, who had sailed with the protesters but voted with the executive, resigned. The unlikely opposition alliance of Tories and the Scottish National Party can barely believe its luck. Alex Salmond, the SNPclosesinglequote>s former leader, whose constituency includes Peterhead, talked ludicrously about a "slaughter of the juveniles".

As *The Economist* went to press, another fishing debate was likely to rubber-stamp the executive's position. But many MSPs are angry that the executive has ignored the will of Parliament, however chaotically it was arrived at. Peterhead skippers, burning the log books in which they are obliged to record their activities, argued that they were entitled to abandon their rules since the executive had ignored Parliament.

This is not the first time that the coalition has been under strain; this time, though, Henry McLeish, the embarrassed first minister, declared that "enough is enough". But the damage will be difficult to repair. When power was devolved to Edinburgh, Scots had hoped that their Parliament would be more democratic and consensual than its Westminster counterpart. That notion has gone down with those tonnes of baby haddock.

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Congo's new president meets the world

Mar 15th 2001
From The Economist print edition

Joseph Kabila is making a good impression in western capitals. But the issues at the heart of Congo's war remain unresolved

Get article background

Reuters

A time for a loyal son to be disloyal

WHEN Joseph Kabila acceded to Congo's shaky throne after the murder of his father on January 16th, outside observers thought they could see a window for peace. Although such hopes are still alive, the window could by now be misting over.

The optimism was based on Mr Kabila's apparent willingness to co-operate with the United Nations in implementing the peace agreement signed in Lusaka in 1999. The accord lays out a way for ending Congo's 30-month war, and securing the withdrawal of all foreign armies from the country.

His father, Laurent Kabila, had continually snubbed the UN and foreign leaders, and even, on occasion, his own Zimbabwean, Angolan and Namibian allies. He refused to accept Ketumile Masire, a former president of Botswana, as the mediator in a political dialogue with Congo's many political forces, even though Mr Masire had been appointed with the agreement of all parties. He prevented the deployment of UN military observers in Congo. And he declared that he wanted the Lusaka accord rewritten.

Joseph Kabila has been much more flexible on all these issues. He claims to want the Lusaka accord implemented. Mr Masire is due to begin a ten-day visit to Congo. The UN is deploying its observers, and on March 12th Mr Kabila met Roberto Garreton, the UN rapporteur on human rights, and encouraged him to investigate alleged brutalities.

The new president has been to the United States to talk to the Bush administration and the UN secretary-general. He has met President Jacques Chirac in Paris, and this week was visiting Britain, the Nordic countries and Belgium, where he will see the European Commission's president. He has reopened talks with the IMF and World Bank, and embarked on economic policies that the West would approve. His message is that he wants peace, the withdrawal of Ugandan and Rwandan forces, full deployment of UN observers, a conference on regional peace, and talks with his opposition.

All this is good news, but in bringing it to western capitals Mr Kabila is preaching to the converted. He has pleased the West by attending to their concerns. But when he speaks of the fundamental issues of the war, he is still vague. Worse, in some crucial areas he simply repeats his stubborn father's mantras.

Mr Kabila lacks legitimacy and power. Indeed, he sounds more like an envoy than the boss, though nobody is sure who in the background might be pulling the strings. The motive for his father's killing appears to have been personal, which allowed the son to be slipped into the job without political power changing hands. He has yet to appoint a government. Nor, since his inauguration, has he appeared on television to explain his plans to the Congolese people.

Like his father, Mr Kabila depends on the armies of Angola, Zimbabwe and Namibia. But his father was also skilful in manipulating the factions that make up the Congolese army. His best fighters came from outside: members of the former Rwandan army, Rwandan Hutu militias and Burundian Hutu rebels, all of them determined to overthrow the Tutsi-dominated governments in their own countries.

The younger Kabila lacks the authority and the political skill to keep all this diversity together. There are already signs of disintegration, with the Zimbabweans and Angolans backing leaders from different ethnic groups. This could explode into open warfare between the two allies, as happened last year when Rwanda and Uganda backed opposing rebel factions. In the meantime, Mr Kabila is hostage to ethnic

groups and rival factions, fearful of alienating any of them.

He is trying to persuade the United States and Europe to put pressure on Rwanda and Uganda to pull their troops out of eastern Congo. The invaders have recently made gestures of withdrawal, but they want the Rwandan and Burundian Hutu groups to be disarmed. The Lusaka agreement lays down that all “negative forces” must hand in their weapons. Such forces are taken to mean the Mai Mai “self-defence” units, former Rwandan soldiers, the killer militias from the 1994 Rwandan genocide, known as the *Interahamwe*, and Burundian rebels.

Speaking in London this week, Mr Kabila cast doubt on the existence of the *Interahamwe* or of former Rwandan soldiers in Congo, and expressed sympathy with the Hutu rebels from Burundi. The Mai Mai, he suggested, were not “negative forces”. It became clear that he had no interest in seeing any of these groups disarmed. The Congolese, he said, had every right to arm themselves against the Rwandan and Ugandan invaders. He appeared to reject the call, made both in the Lusaka agreement and in a Security Council resolution, for the withdrawal of all foreign forces. Congo is a sovereign country, he said, and had invited Zimbabwe, Angola and Namibia to send their troops to help defend it.

Mr Kabila’s commitments to allow UN deployment, promote an internal dialogue and allow cruelty to be investigated, gain him credit with the West. But the issues at the heart of the war must still be tackled. An important test starts this week: from March 15th, all the battling parties have agreed to begin a two-week process of disengagement from the war front. The aim is to set up a buffer zone between the warring armies and factions. If this aim should, against all expectation, succeed, the Lusaka procedures could at last get going in earnest.

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The Palestinians

Waking up to life under Sharon

Mar 15th 2001 | RAMALLAH
From The Economist print edition

A dire scene in the West Bank and Gaza from which only Hamas can gain

PALESTINIANS awoke this week to the era of Ariel Sharon. Three 3.5-metre (12-foot) deep trenches had been gouged out of the road linking the West Bank town of Ramallah to 33 Palestinian villages to its north. Israeli tanks were strewn on Ramallah's main road to Jerusalem. The blockade imprisoned over 50,000 people within the Palestinian-controlled town, and hindered access for 160,000 others. But this was not a collective punishment, insisted Israel's new prime minister. The siege had been tightened because intelligence reports said that a Palestinian cell in the town was planning car-bomb attacks in Jerusalem.

EPA

The road to Ramallah

Mr Sharon says he wants to ease the suffering of Palestinians. A few people are now being allowed through the new roadblocks. But for any real easing, says Mr Sharon, Yasser Arafat must first publicly denounce all Palestinian "violence and terror", act against members of his armed forces engaged in this violence, and resume security co-operation with the Israeli army.

Mr Arafat is unlikely to do what is demanded. Addressing his parliament this week, he said that he was ready to negotiate with the new Israeli government. But Israel's terms as they stand are unacceptable. Mr Arafat revived his call to the UN to dispatch forces to protect civilians in the occupied territories, and asked a visiting European Union delegation to urge Israel to lift the siege and transfer the $50m in tax revenue it owes his authority. The delegation did so, and got short shrift. "It is immoral to demand that Israel pay the salaries of Palestinian forces that are involved in terrorist action," Mr Sharon told the Europeans on March 13th. So the *intifada*, says Mr Arafat, will continue.

But the al-Aqsa *intifada* has long since become little other than an unequal, and largely purposeless, low-level combat between elements of Mr Arafat's security forces and the Fatah movement on one side, and an Israeli army primed for confrontation on the other. It is a conflict that the Palestinians can only lose.

This week UNRWA, the agency responsible for the welfare of Palestinian refugees, said that 250,000 people had lost their jobs since Israel imposed its blockade in October, pitching 1m Palestinians (a third of the population) into penury. The International Committee of the Red Cross said that, for first time since 1967, some West Bank villages are now so destitute that starvation was a possibility "if the current situation persists".

Palestinian health services give warning that the Israeli army's new division of the West Bank into 60 separate military enclaves, and Gaza into four, not only prevents access to hospitals (one or two people have already died as they tried to make their way) but also the implementation of basic vaccination programmes. "The punishment is medieval," said a doctor. But so, he admits, are the present forms of resistance.

Attempting a different path, Palestinians staged a peaceful march on March 12th to dent the blockade between Birzeit University and Ramallah. They used non-violent tactics, sitting down in front of army bulldozers, and dismantling barricades stone by stone. But they were met with a hail of tear-gas and rubber-coated steel bullets. And in what appeared to be a deliberate murder, a leading Fatah activist was killed. Going back to older tactics, Fatah vowed two "days of rage" to break the siege and avenge his death.

In such a cycle the only winners appear to be Mr Arafat's main domestic opponents: the Islamists of Hamas and Islamic Jihad. They have no time for non-violent protest, or meetings with the EU. Instead,

exploiting the authority's weakening control, they are providing welfare to the Palestinian poor, and rebuilding their own armed wings. They watch their popularity grow to a par with Fatah's in Gaza, Nablus and Hebron. They have threatened to "greet" Mr Sharon with ten attacks inside Israel, the first of which took place in Netanya on March 4th. "We will have to suffer Sharon," said a Hamas leader in Gaza. "But we won't suffer alone. The Israelis will also suffer."

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Zambia

Glued to the throne

Mar 15th 2001 | LUSAKA
From The Economist print edition

POWER is sweet, remarked Frederick Chiluba when he became Zambia's president in 1991. Hoping not to relinquish it, he wants to amend the country's constitution so that he can run for a third term in the presidential election that has to be held before November. In public, he hints only that he might stand again if the people demand it, but no one is fooled.

Born poor, Mr Chiluba now lives in a palace, drives around in a motorcade and wears monogrammed shoes with towering heels (he is rather short). He may have other pressing reasons for wanting to glue himself to the throne. As president, he is immune from prosecution. If he leaves office, he could face some awkward questions. Corruption seems to mar virtually everything his government does, from piping oil to buying maize to avert famine.

Mr Chiluba first rose to prominence as a crusader against one-party rule. His amiable predecessor, Kenneth Kaunda, was president for 27 years, banned opposition parties and closed the economy so effectively that even rich Zambians had trouble buying soap. Mr Chiluba was elected to change this and, with donor support, he had many early successes. He brought inflation down from over 100% to only 20% in 1999, although it has since crept back to 30%. He cut tariffs, repealed exchange controls, and welcomed foreign investors.

All this filled the shops with goods, but only the rich can afford most of them. And the ways people make money in Mr Chiluba's Zambia are too often crooked. For instance, foreign donors cheered when 248 out of 280 state-owned firms were privatised. But many of the companies were sold for a song to the government's cronies.

The copper mines, Zambia's biggest asset, could not be treated this way without upsetting outsiders. But the government dithered over the sale until last year, and then the mines went for far less than had been offered earlier. The cost of this blunder amounted to about half a year's income for every Zambian. Moreover, before privatisation, much of the mines' cobalt output had been sold cheaply to MRG, a trading firm in the Bahamas. Someone appears to have made a huge profit by selling the metal on at market prices. The finance minister, Katele Kalumba, said on March 1st that the government was suing MRG, but gave no details.

Over the past decade, Zambia received foreign aid equivalent to about $900 a head. Yet, says the World Bank, GNP per head fell from $390 in 1991 to $330 in 1999. Much of the aid went to paying old debts. But the government's performance has been woeful. Reforms are rarely followed through, and a fortune is wasted on fripperies. One example: AIDS has reduced Zambian life expectancy from 47 years in 1990 to 40 today, but the budget this year for fighting the disease is only half as much as will be spent on building villas for visiting African heads of state.

Mr Chiluba has a number of ways to help secure his third term. First, there are carrots. The president has a large discretionary fund from which to dole out goodies. Politicians from the ruling Movement for Multiparty Democracy (MMD) receive all manner of perks, and loans which they do not necessarily repay. Then there are the sticks. Those who anger Mr Chiluba are sacked: two ministers were ousted on February 27th for "impertinence". Those who are sacked are often then investigated for corruption or tax evasion, and their soft loans are called in. Members of parliament who are flown regularly to Johannesburg for AIDS treatment are especially reluctant to rock the boat.

So will Mr Chiluba succeed himself? It is still far from certain. First, he must change his party's constitution, and then the country's. The MMD has the necessary two-thirds majority in parliament, but if the speaker heeds calls for a secret ballot, Mr Chiluba could lose. And even if he manages to change the constitution, he has still to win the election.

Whatever happens, outsiders will probably go on paying Zambia's bills. The country may not be well

governed, but it is an island of peace in a warring region, and it is host to hordes of refugees. The trouble is that donor indulgence gives the president the impression that he can get away with anything.

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Uganda

Tarnished victory

Mar 15th 2001 | KAMPALA
From The Economist print edition

HE WAS duly re-elected on March 12th to a final five-year term as Uganda's president, with nearly 70% of the votes. But the sheen was taken off Yoweri Museveni's victory by allegations of rigging, and by his main opponent's refusal to recognise the results. Kizza Besigye, a former minister in Mr Museveni's government, got 28% of the votes; the other four challengers less than 3% between them. Outsiders monitoring the election affirmed that the result basically reflected voters' wishes: Mr Museveni still has strong support in the country's rural areas. But they added that if the malpractices had been factored in, Mr Museveni would have won by a considerably narrower margin.

Even before the final results were in, Dr Besigye had demanded fresh elections. He made clear his intention to challenge the results in court. His campaign team, which had already complained of intimidation, talked of violence, stuffed ballot boxes, and the ferrying in of illegal voters. A group of international reporters in Dr Besigye's hotly contested home region in western Uganda had first-hand evidence of election misdeeds, including forced voting. The president's people concede that there may have been a bit of rigging by over-enthusiastic agents. But they insist that, if there was, it was minimal and done on the agents' own initiative.

Mr Museveni's victory brings to an end two months of heated campaigning. He had been challenged once before in his 15 years in power, but Dr Besigye was his first credible opponent. Campaigning as a reforming member of the ruling National Resistance Movement, which restricts political-party activity in the name of national unity, Dr Besigye promised a swift return to full pluralist democracy and to do away with nepotism, corruption and cronyism.

Feeling himself threatened, Mr Museveni pursued a heavy-handed campaign, calling in the army to help the police. Soldiers were seen manhandling opposition agents, and even opening fire. As tensions increased, Mr Museveni, who is generally recognised for the fight he has led against HIV infection rates in Uganda, attacked Dr Besigye for having AIDS. He also declared Rwanda, which used to be Uganda's ally in the Congolese war, "a hostile country". This, apparently, was said to deny Dr Besigye any campaign money that he might have received from the Rwandan government.

Will Mr Museveni now address the issues that were raised by Dr Besigye during the campaign? Many of the president's supporters inside the government share the challenger's concerns. They are hoping that the shock of facing a powerful rival will oblige Mr Museveni to confront issues that he has avoided, including a return to pluralism.

It was high time, the president said immediately after the election, that he began giving people cabinet jobs on the basis of their regional support for him. This was curious: Mr Museveni has always justified his political system on the not unreasonable grounds that it is broad-based and all-inclusive. He has never ruled out a return to pluralism but now he says he will consider it. Could it be that he is preparing to turn the Movement into a normal political party, ready to compete in pluralist elections?

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That falling feeling

Mar 15th 2001 | NEW YORK
From The Economist print edition

With one profit warning after another, the technology giants are falling to earth. Most blame a short-term downturn, but the truth is more worrying: some of their earlier growth was illusory

LIKE all good cartoon characters, the world's biggest technology companies kept running obliviously in mid-air long after the economic ground fell away beneath them. Technology was different, they explained, somehow insulated from the worst of business cycles; there was no need for them to lower profit estimates dramatically, as so many other firms had done. The likes of Cisco and Intel were not frothy dotcoms; they were the engines of the "new economy", turning to the beat of a technological revolution, not consumer whim. Sun Microsystems even argued that people would buy more of its pricey servers in bad times because they made companies more efficient and would be seen as a cost-cutting investment. But eventually, even in cartoons, gravity wins.

Over the past few weeks, most of the leading technology firms have conceded that they cannot fight the forces pulling them down. On March 9th Cisco shocked the market with news that it was laying off up to 8,000 workers, the first big reduction in its history. "There's no question—we got knocked on our tails," said John Chambers, its chief executive. The day before, Intel had announced 5,000 job cuts of its own and said that revenues for the present quarter would be down by 25% from the previous one.

Since then, the clamour of tech giants confessing that they were more exposed than they thought has grown louder. On March 12th Ericsson gave a warning that it would suffer a pre-tax loss of as much as $513m in the quarter, and not break even as it had thought. The next day, Motorola said it would post its first quarterly loss for 16 years and cut 7,000 jobs in one of its mobile-phone units. Meanwhile, slow sales in a semiconductor subsidiary caused Siemens to issue a warning just a day after it listed its shares on the New York Stock Exchange; it claimed that it was as surprised by the chip slowdown as anyone. Oracle and Sun have chimed in with their own bad news.

With each warning, the stockmarket has reacted by slashing the price not only of the company with the bad news but also of its main rivals—a sign that investors suspect companies across the technology industry have been unrealistic in their assurances that they could weather the storm. Worse, there is reason to think that this is not just a short squall. The frantic revenue growth of the past few years—as much as 500% a year for optical firms such as JDS Uniphase—now looks less like a new paradigm than another side-effect of the stockmarket bubble. This suggests that, when growth returns, it will be at far lower rates than in the past.

Natural-born growers

The notion that the technology industry has a natural growth rate far above that of other businesses is an entrenched one, and not groundless. For more than a decade, PC sales have been growing at double-

digit rates, at times as high as 40% a year. The number of Internet users has doubled every 18 months almost since the medium's creation. Moreover, e-business is an opportunity of vast scope, just starting to be explored, as is the mobile-data industry. The underlying tenets of technology, such as Moore's Law (which states that chip power doubles every 18 months), all seem to imply heady growth for everything they touch.

This (and a bit of Y2K panic) helped explain how technology spending in the United States could grow by 42% in 1998 and 37% (to $820 billion) in 1999, according to META Group's MetricNet. This was a natural response to an unprecedented opportunity: technology had created its own business cycle. Spending on other kinds of capital might trudge higher at single-digit rates as always, but the tech sector was on a steeper curve.

This argument was often heard as the Nasdaq steamed ahead, justifying giddy earnings multiples. When a company as big as Cisco can grow by more than 60% a year, it is hard not to get excited. What could be a safer bet than the continuing growth of Internet traffic and the infrastructure it needed? After all, Cisco was selling real goods, such as routers, not dotcom vapour and banner ads. Surely its growth reflected real demand.

Sadly not. Much of the growth in technology spending turns out to have been a product of the stockmarket bubble, a circular flow of money that put speculative cash into the pockets of technology blue-chips.

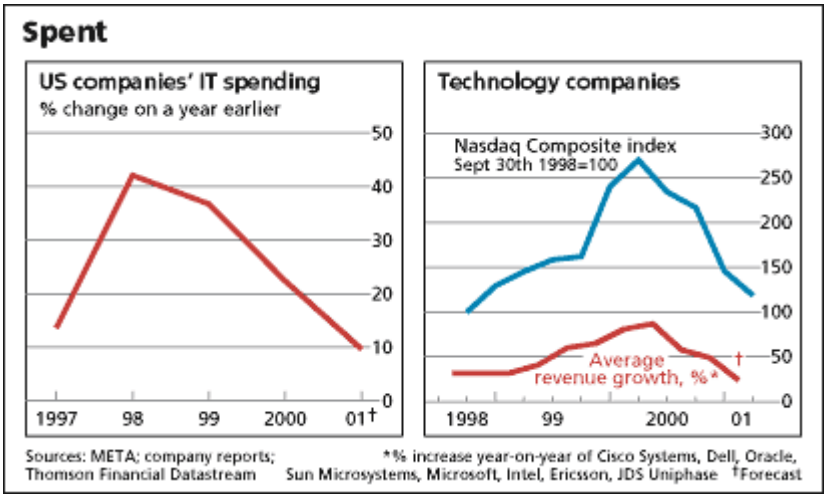
This worked in many ways. First, eager venture capitalists and unquestioning IPO markets poured billions of dollars into companies that would otherwise not have been funded at all; much of that money was spent on technology infrastructure, from Sun servers to Oracle databases. This was not just a dotcom phenomenon: by far the biggest excesses came in telecoms, where young companies such as WorldCom were rewarded handsomely by the stockmarket for building new networks almost without regard to underlying demand. Big traditional firms caught the bug too. Spooked by the frantic spending of Nasdaq's darlings, they stepped up their own technology investments to keep pace.

Lay that cable

At the same time, investors were financing more competitors in each sector than the market could support. In industries such as telecoms, this led to the creation of overlapping, redundant infrastructure. City streets were torn up again and again as yet another IPO star came through to lay its own fibre. And because the technology vendors themselves had virtually unlimited access to capital, they poured fuel on this fire by offering operators generous loans, which encouraged them to build networks even faster.

On top of this, technology companies often took equity stakes in their customers, or even took shares and options as payment. As the customers' share prices soared, the big vendors saw their earnings boosted by huge capital gains. Last year, Intel alone had investments in more than 450 firms, which were worth more than $10 billion combined at their peak. The tech-stock boom had another effect. The vendors' own rising share prices allowed them to pay employees with stock options rather than cash, creating payroll savings and further boosting profits.

All this grossly inflated the sales and profits of the technology bellwethers. Between April 1999 and June 2000, the average revenue growth of eight of the largest technology firms almost tripled, from 30% year-on-year to nearly 90%; over the same period, the Nasdaq almost doubled (see chart). This created a temporarily virtuous circle: a rising stockmarket boosted the profits of big tech firms, creating the impression of higher sustainable growth. In investors' minds, that in turn justified higher multiples for firms across the board, which sent the stockmarket even higher, and so on.



Now that the bubble has burst, the big firms are learning that real growth in technology spending will probably be far lower than they have been used to. Dotcom customers have gone away or cut their spending radically. In America, at least, the telecoms upstarts are also on the ropes: Cisco estimates that capital spending by new local-access competitors, which were among its best customers in recent years, is down by more than half. Many technology vendors have had to write off their loans; second-hand equipment from bankrupt customers is flooding the market. And bricks-and-mortar companies have turned conservative again. A recent survey by Merrill Lynch found that big corporations planned to increase their tech budgets by only 5-6% this year, half last year's figure.

Some of the present slump is cyclical—an ugly combination of stockmarket crash and economic slowdown, with a lingering Y2K hangover thrown in. But when some sort of equilibrium returns, the former growth will not. Howard Rubin, an analyst at META Group, predicts that post-bubble growth in tech spending will be around 8-10% a year, compared with around 20% for most of the past decade. That is nothing to sneeze at, to be sure, but it is no new paradigm either. Given what happened to the old new paradigm, this may be a good thing.

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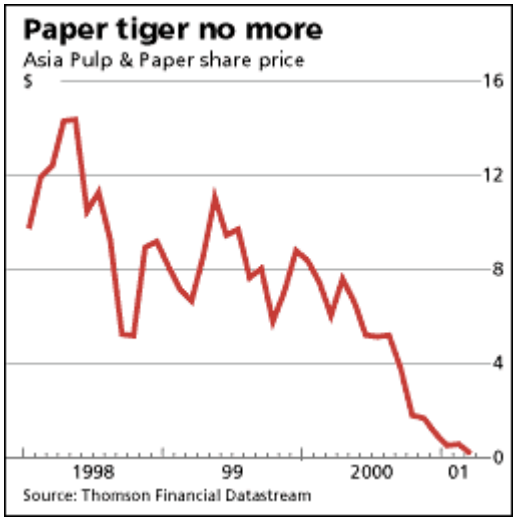
Asia Pulp & Paper

In shreds

Mar 15th 2001 | BANGKOK
From The Economist print edition

WHAT happens when one of Asia's best commercial-court systems tangles with one of its worst? That is the $12 billion question facing the creditors of Asia Pulp & Paper (APP), which suspended debt payments this week. APP runs the largest pulp and paper business in Asia outside Japan, and is controlled by the Sinar Mas group of Indonesia's Widjaja family. Its troubles show how hard it can still be—three years after South-East Asia's collapse—for global capital markets to tame the region's tycoons. Although its operations are in Indonesia, China and India, APP keeps its headquarters in Singapore and lists its shares in New York. Yet as the firm prepares to enter the tidy Singaporean courts, many of its creditors still fear a messy Indonesian outcome.

The Sinar Mas group, Indonesia's second-biggest conglomerate, is one of those overseas Chinese business empires for which South-East Asia has long been known. Tracking such empires' activities is notoriously difficult. The only certainty for outside lenders and investors is that these pyramidal ownership structures are stacked against them. The Widjajas, like many other South-East Asian business families, are known for their opacity. Yet many foreign financiers continued throwing money at their group, even after Indonesia's economy had collapsed in 1997-98.



What attracted them was an "efficient cost structure". In APP's case, this extended beyond Indonesia's cheap labour. Since fresh paper-making capacity demands a ready source of wood chips, the Widjaja family's political connections in Indonesia, rich in forests, came in handy. APP gained access to lucrative forestry concessions on the big islands of Kalimantan and Sumatra. Because Indonesia's soft wood grows up to twice as quickly as wood in northern climes, these concessions were especially valuable. The country's weak enforcement of environmental rules—nobody insists on bothersome replanting—made the licences potentially even more attractive.

By itself, this edge was not enough to deliver a high return on capital. So, throughout the 1990s, APP expanded across Asia, especially into pulp and paper plants in China and India. The idea was somehow to make better use of scale economies to boost the company's returns. Many foreign lenders were impressed.

The lenders had other good reasons to fork out money. Although APP's Indonesian businesses were generating 70-80% of its cash flows, and although the country's currency and economy had collapsed, the firm was largely selling a cash commodity on international markets. Moreover, the Indian bit of the business seemed about to take off. The junk status of APP's bonds was also considered a good sign: that meant high yields. Finally, outsiders noted that APP had never missed a debt payment, and took this as a kind of guarantee.

Last year, however, APP began running out of ways to borrow, partly because of a sharp decline in pulp and paper prices. Since then, its relations with creditors have gradually worsened. Last week ABN AMRO, a Dutch bank, filed three writs against APP and its operating subsidiaries. As the company's many banks sort through its tangle of debt obligations, they will be grateful that Singapore's open and orderly courts are involved.

Yet the courts may end up providing small comfort. The biggest complication will be Indonesia's government. It acquired a stake in the Sinar Mas group's bank, Bank Internasional Indonesia (BII), when it recapitalised the concern in 1999. Because BII had provided some of the Sinar Mas group's financing, the group ended up owing the government $1.3 billion. Last month, the group pledged a pile of its assets to cover that debt.

Many of the pledged assets are believed to come from the group's stake in APP, thus putting the government ahead of all those other creditors. They can trade it in New York and sue it in Singapore, but the foreigners who financed APP are still dealing with an Indonesian company.

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Jewellery industry

All that glitters

Mar 15th 2001 | SOLONGHELLO AND VALENZA
From The Economist print edition

DIAMONDS may be a girl's best friend, but wobbly stockmarkets and the threat of a global recession are among a jeweller's worst enemies. The outlook for the world economy is expected to dominate discussion at a conference on gold and jewellery that starts in Rome on March 19th. The topic is of particular relevance for Italy's own jewellers. After a rich period of growth, they are facing tougher times. Many of the 10,000 or so craftsmen and small firms that make up the fragmented industry are wondering how to remain competitive.

Jewellery is an Italian success. Three decades ago, the industry was dominated by French names such as Cartier, Boucheron and Van Cleef & Arpels. French makers were considered the best in the world. But the Italians learned quickly. They were faster to industrialise production and to anticipate soaring demand for high-quality jewellery. They soon eclipsed their French teachers. As recently as 1998, Italy turned more precious metal into jewellery than any other country. India now occupies the top slot thanks to its volume of cheap gold-jewellery production, but Italy still leads by value. Its jewellers worked 500 tonnes of gold last year, far more than the 45 tonnes worked in Germany, Europe's second-largest producer.

The market is growing tougher, reckons Federorafi, the association of Italian jewellery makers and goldsmiths. Its members, who export around 80% of production, face increasing competition from countries such as Israel, Turkey and Thailand, as well as India and China. Moreover, Italy's share of the American market, which absorbs more than one-third of exports, is dropping. According to Federorafi, there will have to be consolidation if companies are to survive harsher market conditions.

Producers of mid- and low-priced jewellery are worst affected. At the higher end of the market, however, the outlook is brighter. Among Italy's most successful jewellers is Crova, a family company with factories at Solonghello and Valenza, south-east of Turin. It increased its turnover by 35% to $40m last year and expects even higher growth this year. Crova makes only the highest-quality jewellery. It is also big: it has 380 workers, compared with the two or three who make up the workforce at most of the 800 firms in Valenza, Italy's jewellery capital.

Crova was founded in 1977 and grew quickly thanks to a lasting partnership with Bulgari, a successful retailer of jewellery and fashion goods. Bulgari became Crova's first customer and has grown from three shops to more than 100 around the world. "My father had two aims: to combine quality with quantity and to offer customers a full service from design to prototype to production, across a broad range of products," says Pier Carlo Crova, managing director and one of the founder's two sons.

Crova has had to achieve high quality with large volumes to satisfy Bulgari. This has required heavy investment in machinery and in staff training, as well as continuous spending on quality control. Since the mid-1980s Crova has reduced its reliance on Bulgari, and now makes jewellery and watch bracelets for other big brands, including Mikimoto, de Grisogono, Chopard and Rolex.

Around 125,000 pieces of jewellery left Crova's factories last year. To make them, the firm used 15 tonnes of gold and around 2m diamonds. About half of Crova's output is done under contract by more than 100 different workshops in Valenza, a policy that allows it unusual flexibility. The firm also makes occasional one-off pieces, although these are invariably loss-making. "There are still princes and princesses who want them, and they are a way to get talked about," observes Mr Crova. But getting talked about is not easy for a manufacturer whose name is always hidden behind its clients' fashionable brands. And margins on distribution are much higher than the 10-15% that Crova earns making jewellery for others to sell.

That explains Crova's decision earlier this year to create its own jewellery brand. It is, however, a decision fraught with risk. For the company's retailing customers, there is the threat that Crova will become a competitor. There is also the danger that it will lose its edge in manufacturing as it puts more effort into distribution and marketing. Mr Crova has reassured customers by insisting that the new brand

will be kept separate from the existing business. Further, Crova's strategy has already been adopted by other successful manufacturers such as Chimento and Uno A Erre. If they can create brands as lovingly as they create diamond-encrusted rings, these leading Italian jewellers might just have a bright future, with or without the odd economic downturn.

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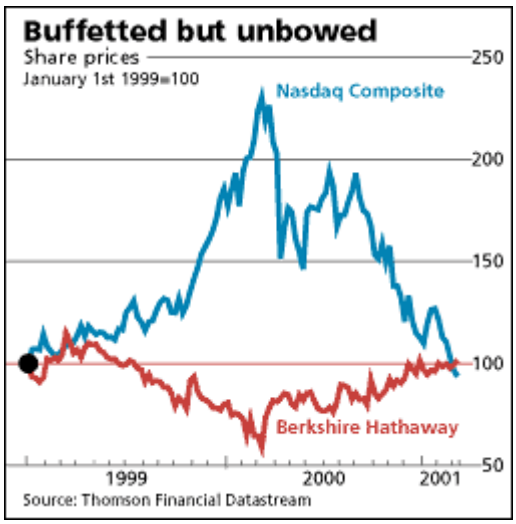
Face value

The oracle strikes back

Mar 15th 2001
From The Economist print edition

As storm clouds continue to gather over technology companies, one investor at least can be forgiven for feeling pleased with himself: Warren Buffett

THE Dairy Queen ice cream will taste particularly sweet at next month's "Woodstock for Capitalists", as the annual meeting of Berkshire Hathaway is affectionately known. Only a year ago, Warren Buffett, who runs the investment firm (which owns Dairy Queen, among others), was being written off everywhere as the once-great investor who simply didn't get the "new economy". How could the legendary Oracle of Omaha admit to not understanding technology companies, when everybody else was successfully betting their shirts on JDS Uniphase, Qualcomm and the like, firms that were going to do something very important and new? (What was it, again?)



It is Mr Buffett who is laughing now. The day the Nasdaq peaked at 5,100 last March marked the point at which Berkshire's share price touched a low from which it has since risen steadily (see chart). Mr Buffett's latest annual letter to shareholders, always a treat to read, mixed his hallmark folksy, gently self-deprecating style with a loud shout of "I told you so". "We have embraced the 21st century by entering such cutting-edge industries as brick, carpet, insulation and paint. Try to control your excitement," he urged. Berkshire, he explained, is now one of very few authentic "clicks and bricks" businesses, thanks to the Internet activities of GEICO, an insurance business, and the purchase of Acme, a brick firm—a deal that "you can bet...is making them sweat in Silicon Valley."

To Mr Buffett—who now dares disagree?—last year's Nasdaq surge was a bubble destined eventually to meet with a deadly pin. This bubble caused a massive transfer of wealth from the public to the promoters of companies, "designed more with an eye to making money *off* investors rather than *for* them". But investors large and small must share the blame, he writes: like Cinderella, they knew that midnight would bring on pumpkins and mice but, hating to miss a second of a great party, they stayed too long. They have now learnt, or should have, some old lessons. First, Wall Street will sell investors anything. Second, speculation is most dangerous when it looks easiest.

Mr Buffett does not dismiss the new economy entirely—he accepts that much real value has been created in the past decade by new or young businesses. He is saying merely that he is not "smart enough" to pick the "few winners that will emerge from an ocean of unproven enterprises".

Mr Buffett's comeback is in many ways a triumph for the view that, ultimately, share prices reflect a company's fundamentals rationally. This was an argument made by Benjamin Graham, author of "Security Analysis", perhaps the greatest book on investing ever written. Mr Buffett joined Mr Graham's famous class at Columbia University exactly 50 years ago.

Yet there is more to Mr Buffett's success than solid analysis of companies' fundamentals. For one thing, he is not always the amiable, uncomplicated 70-year-old suggested by his carefully cultivated public persona. He can be as tough as the cowboy boots that one of his companies sells. He made plenty of

enemies while saving Salomon Brothers, an investment bank, from bankruptcy in the early 1990s. More recently, he intervened at the last minute to stop Coca-Cola, one of his biggest and earliest investments, pursuing its planned takeover of Quaker Oats, which he considered too pricey. That left Coke's boss, Douglas Daft, looking embarrassed. Even Mr Buffett's recent opposition to the abolition of estate taxes may not have been the selfless gesture it appeared: a big loser from the taxes' demise would be the insurance industry, in which Berkshire is a leading firm.

The way Mr Buffett invests has also been crucial to his survival in bad times. Unlike many other "value" investors, last year Berkshire did not engage in the expensive and risky activity of shorting shares that looked overvalued. Nor did it have to win mandates from, say, pension-fund trustees who felt that Nasdaq was the only show in town. Nor, for that matter, did it have to meet cash demands from investors by selling poorly performing stakes in companies such as Coca-Cola, Gillette and Disney, just at the point when they were worth least.

Cash cushion

Mr Buffett has been cushioned from short-term pressures by his insurance businesses, which account for roughly half of Berkshire's profits. The insurance industry may be largely populated by dull, unimaginative sorts, but for a financial wizard such as Mr Buffett its tax advantages and cash generation offer huge opportunities. The cash allows him to invest when rival investors are unable to raise money, enabling him to buy at low prices. Last year, for instance, the drying-up of the junk-bond market meant Berkshire faced little competition when making a series of acquisitions.

Berkshire's liquidity may be the key to Mr Buffett's success, reckons Myron Scholes, a Nobel prize-winning economist, and a former partner in Long-Term Capital Management, a failed hedge fund that Mr Buffett tried unsuccessfully to buy in 1998. But can Berkshire continue to spew cash? Its performance in insurance underwriting has been disappointing of late. If this continues, it could hamper Mr Buffett. Moreover, even at today's lower prices, he does not think that shares are an exciting prospect. Private purchases of firms are more attractive, he says, but even they are unlikely to offer "really juicy" results until capital markets get very tight.

If things go on as they are, that day may not be far off—in which case, Mr Buffett's prospects will be better than ever. More ice cream, sir?

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Artists of the floating world

Mar 15th 2001
From The Economist print edition

IS IT an ocean-going luxury resort, a movable second home or merely an ingenious way to finance ship construction? Whatever it is, *The World*, a 196-metre (644-foot) ship launched on February 28th and now being fitted out, is being watched closely by cruise-industry executives. For *The World* is no ordinary cruise ship. Instead of carrying thousands of passengers for a week or two at a time, it will be home to around 200 residents who have paid between $2m and $7m apiece for one of its 110 apartments. And rather than making a brief stop in a different port each day, *The World* will follow a more leisurely itinerary, visiting Cannes for the film festival, cruising down to Rio for the carnival and so on. The idea is the brainchild of Knut Kloster, a Norwegian shipping magnate whose family pioneered the modern cruise industry in the 1960s.

Will it sink or sail? So far, 89 of *The World*'s apartments have been sold and the rest are expected to be snapped up by the time the ship is completed in December, says Frédy Dellis, the boss of ResidenSea, the Bahamas-based company behind the scheme. The advantage of the residential approach is that selling the apartments up front covers the cost of the ship's construction. Residents then pay an annual service charge of around 6% of the cost of their apartments, which covers about 85% of the ship's operating costs. ResidenSea will pay the rest, and make its profit from operating the ship's restaurants and shops, and from renting out an additional 88 apartments to the residents' guests.

This business model may make sense for the operating company, says Jim Winchester, a cruise-industry analyst at Lazard Frères, but may not represent such good value for the residents. Compared with buying a yacht or a French chateau, for example, spending $5m on a floating apartment looks like a bad investment, not least because the resale value is uncertain.

Mr Dellis responds that his firm is selling "a lifestyle, not an investment". Besides, he says, many of his clients have the yacht and the chateau already. Fine, but what of the claim that, with just 300 or so residents and guests on board and a similar number of staff, the vast ship will feel like a floating ghost-town? Mr Dellis responds that he is aiming for the atmosphere of a private club, not that of a cruise ship. As for safety—won't the ship be an ideal target for pirates or terrorists?—Mr Dellis insists that security will be much tighter than it is on private yachts or in five-star hotels.

If the idea of residential megaships proves popular, other firms are waiting to enter the fray. By far the most ambitious plan is that of Freedom Ship International, based in Palm Beach, Florida, which hopes to build a floating city. The *Freedom Ship* would be over a kilometre long, 25 storeys high and home to 40,000 people. Apartments would start at around $120,000, so it would not be the exclusive preserve of the mega-rich. Indeed, a drawback is that only the more expensive apartments would have windows—something even the middling-rich are unlikely to stand for.

Yet another approach is that of the *America World City*, a pet project of Mr Kloster's, which consists of three high-rise towers on top of a huge ship, with a "downtown" complex of streets between them. Like other purveyors of science-fiction escapism, the backers of these projects will have more than a passing interest in the fate of *The World*.

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Regional jets

Small is beautiful

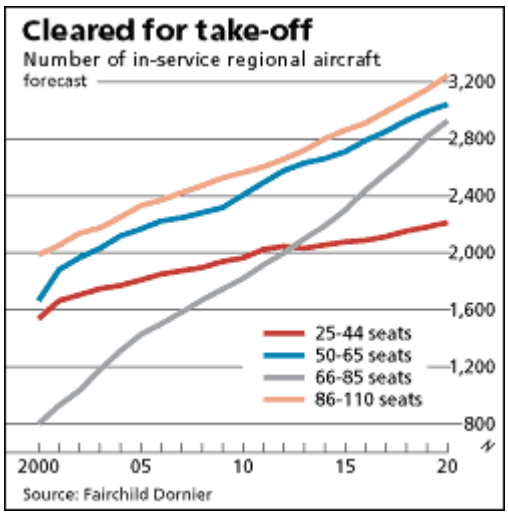
Mar 15th 2001 | SAO JOSE DOS CAMPOS
From The Economist print edition

Their order books are bulging and they are launching ever more models. How high can regional jet makers fly?

THERE seem to be as many construction workers as aircraft engineers scurrying around Embraer's sprawling manufacturing complex at Sao Jose dos Campos, between Sao Paulo and Rio de Janeiro. The Brazilian firm, one of the world's three main makers of "regional" (ie, medium-sized) passenger jets, is rushing to build new hangars and refurbish old ones, as it gears up production of its new range of 70-110-seat planes while producing growing numbers of its smaller, 37-50 seat jets. Even when the building work is finished there will not be enough room, so another plant is being built further inland.

How different things were in 1996, when the plant was at a near standstill. The private investors who had recently bought Embraer from the Brazilian government were nervously launching its first regional jet into a market reeling from the collapse a few months earlier of Fokker, a Dutch plane maker. It was far from clear if Embraer, until then a maker of turbo-props and military aircraft, would be able to avoid a similar crash-landing. Since then, 294 of that first model, the 50-seat ERJ145, have been delivered; its order book currently stands at 255 firm purchases and 316 options. A 37-seat model was successfully launched in 1999. The first of a new range with 70-plus seats should be delivered next year.

The regional-jet market has turned out bigger than many in the air industry had expected when Fokker went bust. For that, thanks go largely to the CRJ200, launched a few years earlier by Embraer's bitterest rival, Bombardier of Canada. This aircraft turned out to be more efficient and popular than even its makers had hoped. It transformed the economics of the medium-distance, low-density routes operated by regional airlines, which hitherto had flown mostly noisy, slow turbo-props. The successful launches of Bombardier's and then Embraer's jets were followed by that of the 328, a 32-seater from Fairchild Dornier, an American-German firm. With demand set to go on rising (see chart), all three firms are now working on bigger models with 70-110 seats, overlapping with the smallest jets made by Boeing and Airbus.



Fokker crashed because its planes were heavy and expensive and, being largely hand-made, took ages to build. Unlike Bombardier, Embraer and Fairchild Dornier, it failed to invest enough in design and automated manufacturing processes. All three learned from Airbus, which contracts out the making of many important parts to a group of supplier-partners; they share the costs and risks of developing a new plane. For instance, the Embraer ERJ145s being assembled at Sao Jose dos Campos have wings that have been flown in from Spain, tail fins built in Chile, rear fuselages from Belgium and cabin interiors from America.

Since its privatisation, Embraer has become a source of pride in Brazil. It is a high-tech export success—foreign sales rose 60% last year to $2.7 billion—capable of fighting rich countries' aerospace giants on equal terms. More than equal: whereas it is selling regional airlines a full model range from 37 to 108 seats, Bombardier has no model at the bottom end and Fairchild Dornier has nothing in the most popular, 50-seat range.

Crowded skies

All three won enough pre-launch orders to go ahead with building their new 70-110-seat ranges, but there are still doubts about demand for these larger planes. For one thing, they face competition they

might not have expected. British Aerospace recently defied the industry's belief that its RJX programme—a revamp of its older BAe 146 jet—was being wound down. It announced that British European had ordered 12 112-seat RJXs, with an option to buy eight more.

Richard Aboulafia of Teal Group, an aviation consultancy, points out that the number of competitors has grown just as the industry may be heading for leaner times. One reason for this is the resistance to larger regional jets from pilots' unions in the United States. Most regional airlines are affiliated to or owned by big long-distance airlines, whose pilots have in many cases won "scope clauses" in their contracts. These ban the big airlines from working with regional carriers that fly planes of 70 seats or more, and are designed to stop pilots of big planes being undercut by lower-paid regional-jet pilots.

Barry Eccleston, a vice-president of Fairchild Dornier, admits his firm had hoped that scope clauses would be dying out by now, but they seem to be strengthening. He is pinning his hopes on the emergence of new, independent regional airlines, flying between medium-sized cities rather than connecting with the big carriers' "hub" airports, and thus unaffected by their labour-relations problems.

In Europe, scope clauses are rarer, but there is another threat to the regional jet makers' ambitions: lack of airspace. Last month, the jet makers (along with regional airlines) helped to delay a proposal by Europe's air-traffic authorities. This would have introduced new fees, pricing regional jets out of some chunks of airspace to make way for the big carriers' planes. The problem can be fixed, says Mr Eccleston, with better air-traffic control, but at great expense.

Pilots' contracts and crowded skies may slow the three main regional jet makers' expansion, but the long-term prospects look better than they did five years ago. Each has products that have proved reliable and economical. Whether they could have achieved their success without government aid is an interesting question. Another is whether Embraer and Bombardier, now that they are flying high, should continue getting it, in the form of subsidised loans for buyers of their planes. The World Trade Organisation has already ruled Brazil's and Canada's subsidies illegal. Both schemes have been modified but the row goes on.

Embraer's president, Mauricio Botelho, insists that, coming from a developing country with high interest rates, his firm merits special consideration. Without aid, he says, it could not survive against its rich-country rivals. Analysts disagree. In a subsidy-free contest, Embraer ought to hold its own. Until the firm is cut free, the Brazilian taxpayer will continue to subsidise airline shareholders in richer countries by letting them buy Embraer's planes a bit cheaper.

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South African industry

Minefield

Mar 15th 2001 | JOHANNESBURG
From The Economist print edition

FOR a country to prosper, property rights must be secure. It also helps if the country is peaceful. Though they deny it, South Africa's rulers worry that the two aims may be in conflict. The problem, like so many of South Africa's problems, is historical. Under apartheid, property rights were secure—but only if you were white. Black South Africans were often booted off their land to make way for white builders or miners. The present, democratic, government wants to redress past injustices without infringing property rights. It is a tricky balancing act, and it makes business nervous.

Mining firms, for instance, are worried by a draft mineral-development bill, some version of which will probably be enacted this year. In order "to redress the results of past racial discrimination and ensure [that] historically disadvantaged persons participate in the mining industry", the bill would give broad discretion to the minerals minister to decide who can mine what.

The minister in question, Phumzile Mlambo-Ngcuka, insists that existing mining operations will continue to operate unhindered. But the miners see devils in the detail. They note that holders of mining rights granted under apartheid will be allowed to apply for the right to continue mining, but that there is no guarantee this will be granted. They also worry that the bill would make their right to mine subject to "such conditions as [the minister] may determine". These conditions are unspecified, and there seems to be no right of appeal.

The truth is, the government is angry about the way mineral rights were won in the first place, and unhappy that so few black-owned firms have been able to exploit South Africa's colossal mineral wealth. The big players, such as Anglo American, De Beers, Billiton and Gold Fields, are largely run by whites. Some are listed overseas, and about 40% of the South African mining industry is owned by foreigners.

Mining and related businesses account for almost 60% of South Africa's exported goods, so the government does not want to injure the industry. But Ms Mlambo-Ngcuka would like to see black firms digging up some of the mineral deposits that the big mining houses currently own but do not mine (because of cost). The trouble is, mining requires technical expertise and patient capital. Black South Africans do not yet have much of either, and the new mineral-development law will make it harder for them to raise finance if it undermines security of tenure. That is because mines often produce no return for their first ten years. Investors have to be sure that the law will not turn on them in the future.

Property rights are enshrined in the South African constitution, but exceptions are sometimes made in order to right past wrongs. On March 13th, for instance, the government issued its first order to expropriate a farm. Moreover, the government makes frequent trade-offs between economic growth and restitution. On March 14th, for example, it announced that foreigners will be allowed to own no more than 49% of South African fixed-line telephone companies. The communications minister, Ivy Matsepe-Casaburri, promised to license at least one rival to Telkom, the current monopoly provider, and to set aside up to 30% of each big licence for black South Africans.

The conflict between business-as-usual and compensation for blacks would be easier to resolve if white businessmen trusted South Africa's black-dominated government, and vice versa. Investors look at Zimbabwe, where the government openly tells its supporters to grab private property, and shudder. The South African government draws a different lesson from its neighbour: that if blacks' grievances are not addressed, the future could be turbulent.

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Churning at the top

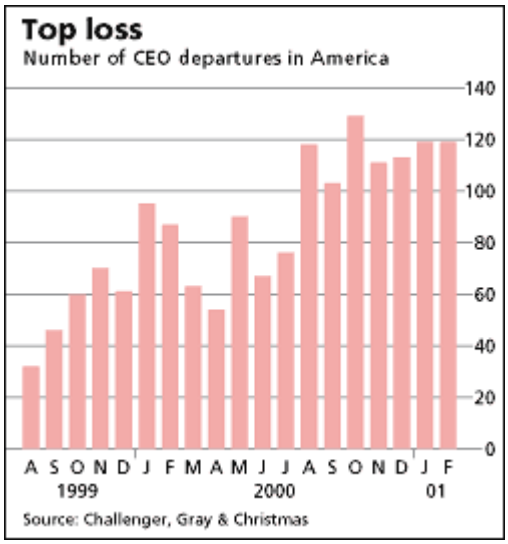
Mar 15th 2001
From The Economist print edition

Corporate bosses are being hired and fired like never before, and many more will go as the economic slowdown in America bites. Why is it proving so hard to find good leaders these days?

LAST summer, the venerable *Harvard Business Review* published an article* by Warren Bennis and James O'Toole, two American academics, about a phenomenon they described as "CEO churning". Corporate bosses, they alleged, were coming and going at an unprecedented rate. They had not by then seen half of it. Since the article was published, the rate of churn has increased sharply.

In February this year, 119 CEOs left their jobs at sizeable American companies, according to data compiled by Challenger, Gray & Christmas, an outplacement firm based in Chicago. That was 37% more than in the same month a year earlier. According to Challenger, departures in the last six months of 2000 were over 40% up on the first six months of the year (see chart).

As the economic slowdown in America continues, more and more heads can be expected to roll. Investors (and the boards that represent them) will become less patient with bosses who cannot produce results that exceed those of the previous accounting period. Their patience will be the more frayed because few of them (or of the bosses themselves—see article) can remember anything like it. It's a rare chief executive who was in the job a decade ago, the last time America and Europe experienced recession.



The impact of disappointing results is already visible. A rising proportion of the CEO departures are coming from dotcom companies. Many of them were enticed to the job with the carrot of shares or share options. When the dotcom stockmarket bubble burst, some of those high-fliers headed for nests where they could command a more reliable cash flow. In Europe, four of the leading Internet companies lost their bosses in February alone, whilst in America earlier this month Tim Koogle announced his resignation as CEO of Yahoo!, a bellwether for the whole sector.

Even so, dotcom disappointments account for only a small part of the churning—20% in America in February. Writing before the economic slowdown had even begun, Mr Bennis and Mr O'Toole maintained that there are two more fundamental reasons for the phenomenon: in the first place, the job of the CEO has become much more demanding in recent years; and second, companies are getting worse at choosing their bosses. Add that to an across-the-board recession, and the churning of chief executives could soon begin to have a distinctly rancid flavour.

A number of changes in the business environment are adding to the stresses of the top job, and increasing the fall-out rate. The flattening of the corporation, for example, that was such a feature of corporate restructuring in the 1990s, left those in charge with a wider span of control. Instead of typically having four or five people reporting directly to them, bosses have come to have a more demanding eight

or nine.

At the same time, globalisation has forced chief executives to travel more in order to keep in touch with their far-flung empires. Chris Jones, the 45-year-old chief of J. Walter Thompson, a global advertising agency, resigned in January after suffering a life-threatening DVT (deep vein thrombosis) on a flight from New York to Geneva. Long-haul fliers are thought to be particularly susceptible to DVT, and CEOs of global companies cannot easily avoid long-haul flights.

Wayne Sanders, the CEO of Kimberly-Clark, a paper maker, has tried to reduce the risk to him by delegating much of his travel to his number two. In February, he told the *Wall Street Journal* that the turning point came on the first day of a 15-day trip to Asia. At one in the morning, he found himself exhausted, unable to sleep, sucking a Snickers bar and thinking, "I'm in trouble."

The need to be on top of every new development in information technology is also putting new strains on bosses, most of whom were brought up in the pre-computer era. Some companies are trying to circumvent the problem by appointing a leader who is already IT-literate. Tom Glocer, the 41-year-old who takes over in July as the boss of Reuters, for example, used to write simulation software when a lawyer in New York. Few geeks, however, yet seem to come with the full range of talents considered essential for the leader of a large corporation.

The spate of mega-mergers in recent years has also added to the churn. When two companies become one there is room for only one boss. Despite initial devotion to a harmonious future together, one or other usually gets the elbow. On January 24th, for example, John Mack, a former head of Morgan Stanley (who became joint head of the firm created by the investment bank's 1997 merger with Dean Witter) resigned—leaving the top job to his co-chief, Dean Witter's Philip Purcell. In such cases, the dear departed soon come into the sights of headhunters and disaffected boards elsewhere.

Moreover, the period immediately after a merger is particularly stressful and can give the final push to a CEO teetering on the edge of resignation. Jacques Bougie, the 53-year-old head of Alcan, resigned on January 10th, only a few months after the Canadian company had bought Algroup, a Swiss aluminium maker. Mr Bougie said that he wanted to "return to activities I have put aside".

As stockmarkets have declined, however, the financing of M&A deals has become less attractive. As a result, their number has fallen sharply this year and their modest impact on the rate of CEO churn will have correspondingly diminished.

Bad choices

It is the job of companies' boards to choose new leaders, and several things prevent them from getting better at it. For a start, the board invariably includes the old CEO, a person whose motives for choosing a successor can rarely be entirely pure. The more successful (and powerful) the CEO, the more influence he has in making that choice, a formula that can lead to disaster.

Take Coca-Cola. A few years ago, when Roberto Goizueta, the company's much admired leader, knew he was dying of cancer, the board chose Doug Ivester, his number two, to succeed him. Mr Ivester had been Mr Goizueta's chief financial officer and also, say Messrs Bennis and O'Toole, "emotionally inept". When hundreds of Belgians were poisoned by the company's products in 1999, it took Mr Ivester a week before he decided to cross the Atlantic and show that he cared about customers.

How could the company have chosen such a wrong 'un? The two American academics believe it was because the directors were keen to honour the dying man's wishes, and Mr Ivester was his "fair-haired boy". In any case, Mr Ivester lasted less than 18 months in the job.

Mr Bennis, a professor at the University of Southern California's Marshall School of Business, says that when they have to choose a new leader, boards "typically go into a kind of collective trance, rhapsodising about 'leadership' and the big need for it without ever taking even the first steps to define what they mean by the term." If pushed, they refer to quantifiable things—paper qualifications, for example, or breadth of experience. Those who appreciate that great leaders must have immeasurable qualities as well tend to turn to outside headhunters for help.

Boards are further hindered in making good choices by two well-embedded misconceptions. The first is

the enduring idea that leaders are somehow born and not made: that genetic make-up counts for more than training and experience.

The second was most famously raised in an article by a Harvard professor, Abraham Zaleznik, in 1977 in which he argued that, “Because leaders and managers are basically different, the conditions favourable to one may be inimical to the growth of the other”—ie, long experience as a manager is poor training for a leader. Over time, this encouraged boards to look outside their own organisations for CEOs more than they might otherwise have done.

Zaleznik’s point may have been valid in the 1970s when firms were full of managers who did little more than sift information. It is not so true today. The corporate restructuring of the 1990s has squeezed out most such jobs. Corporate managers now have responsibility for bits of their group’s profit and loss at a much earlier stage in their career. No longer is their experience “inimical to the growth” of a leader, if it ever was.

In any case, some of the most successful leaders of recent years have had no working experience outside their own organisation: Jack Welch of GE, for instance, (*Time* magazine’s “CEO of the 20th century”) joined the company in 1960 and is due to retire this year; Sir Brian Pitman, who led Lloyds/TSB at a time in the 1990s when it was one of the best-performing companies in Europe, joined the bank in 1952 and never worked anywhere else.

More disruptive to the search for good leaders is the widespread belief that they are born (and/or bred), but not made. This belief leads to extensive efforts to find the “qualities” that all great leaders have in common. History books are trawled for hints, with kings, war heroes and explorers popularly held up as role models.

Robert Scott and Sir Ernest Shackleton, for example, have come to represent two (metaphorical) poles of the “born” leader: Scott the inflexible, distant type who would stop at nothing; Shackleton the charming enthusiast who cared first and foremost for his men. Scott was more popular in the ruthless corporate world of the 1980s, while Shackleton is more the man for today. This month sees the publication of a book by Margot Morrell and Stephanie Capparell called “Shackleton’s Way: Leadership Lessons from the Great Antarctic Explorer”.

These characters from history go in and out of fashion. Early last year, Joan of Arc was in; later in the year it was the turn of Elizabeth I, the 16th-century unmarried queen of England who has just been celebrated in two management books: “Elizabeth I, CEO” by Alan Axelrod, and “Leadership Secrets of Elizabeth I” by Shaun Higgins and Pamela Gilberd. The fact that they were women hasprobably pushed Joan and Elizabeth’s cause in an age when corporate leaders are exhorted to expose their “feminine side”.

Timid and shy

New theories about the necessary and sufficient qualities of great leaders appear at regular intervals. The latest comes from Jim Collins, co-author of “Built to Last”, a best-selling business book of the mid-1990s. His new book (“Good to Great”, to be published by HarperCollins in the autumn) was trailed in an article** in the *Harvard Business Review* earlier this year.

Mr Collins set out to see whether those companies that made an unexpected transformation from being quite ordinary to being great had anything in common. He scoured databases of corporate results going back to 1965 and found only 11 companies that, on his definition, went through such a transformation. They included Kimberly-Clark, Gillette and Abbott Laboratories.

These firms he then put under the microscope to see what characteristics (if any) they shared. And the only thing he could find was that they had all had leaders who possessed “a paradoxical mixture of personal humility and professional will”. All of these leaders were men, and all were a rare mix of “timid and ferocious; shy and fearless”. Almost all of them were appointed from inside their organisations.

One of Mr Collins’s heroes is Darwin E. Smith who, in 20 years as CEO of Kimberly-Clark, turned an insignificant paper company into a world market leader. “Shy, unpretentious, even awkward”, Darwin Smith “seems to have come from Mars”, writes Mr Collins. After the bruising from the likes of Hugh McColl, the former marine who browbeat Bank of America into its current mess, and Al “Chainsaw” Dunlap who pulped Scott Paper while laying off thousands of employees and pocketing $100m for

himself, the boards of corporate America may be yearning to hear Mr Collins's message: Go search out the meek, for they shall inherit the corporation. Would that it were so easy.

For a start, Mr Collins has excluded a large part of the corporate world from his analysis. The computer industry is too young to register, so there is no mention of its big (and highly successful) egos. And the finance industry is not represented at all.

Mr Collins says, however, that there have been leaders in both industries to support his case. John Morgridge, the man who turned Cisco Systems from an ordinary company into a great one, was, he says, "a quiet, reserved, shy and understated man", as was John Whitehead, the partner who helped make Goldman Sachs great in the late 1970s.

Mr Collins has confined himself to America, because nowhere else is there sufficient data to make a comparable analysis. But Europe's understated ways might have provided him with more examples of his leader "type" than America. A couple of European companies that went from good to great during the 1990s may have had such leaders: Nokia, the Finnish mobile-phone phenomenon, and Aegon, a Dutch insurance company. Aegon's boss, Kees Storm, is a self-effacing Dutchman whose humility, this publication once said, "almost amounts to disdain for the latest fashion", while Nokia's boss, Jorma Ollila, preaches the cause of *nöyryys*, a Finnish word meaning "putting teamwork before individual effort".

Leadership school

There are, of course, some things that corporate leaders do unquestionably have in common. CEOs remain, as they always were, overwhelmingly white, male and over 50. And so do the people who select them. A study of outside directors in Britain, published by PricewaterhouseCoopers in January this year, reported that even today "almost all non-executive directors are white, male and in their 50s". It is no surprise that people like to choose people like themselves.

In addition, Mr Bennis claims that the vast majority of successful company leaders have remained happily married to the same woman all their lives—although this is far from being without exception. There is a long list of colourful bounders and playboys who have both run and built great companies.

Henry Ford II, the man who revitalised the family-car business after the second world war, ensured that his management methods did not get in the way of his jet-setting lifestyle. And Charles Edward Merrill, founder of Merrill Lynch, was a notorious philanderer known to his friends as "Good Time Charlie". He was so busy having a good time that he did not start the firm that bears his name until he was 54, by which time he was on to his third marriage.

However, boards which look for the umpteen necessary and sufficient qualities of great leaders are largely wasting their time. In its report on "Developing Leadership for the 21st Century", the recruitment consultants Korn/Ferry rightly wrote: "Business in much of the developed world still pays too much attention to the search for charismatic leadership, rather than engaging in the more difficult but less chancy task of permitting and developing leadership throughout its organisations." Dana Kaminstein, who works on the Wharton School's leadership programme, says that the majority of what is written about leadership "falls into the trap of romanticising the individual".

The one person blamed more than any other for this is Lee Iacocca, the self-promoting head of Chrysler in the 1980s who published a blockbusting biography called, quite simply, "Iacocca". In practice, Mr Iacocca's record at Chrysler was, at best, mixed, and nothing like as beneficial to shareholders as that of a soft-spoken successor, Bob Eaton, who adroitly sold the company to Daimler-Benz just before the American car maker hit a rocky patch.

The truth is that there are many people within every corporation who are capable of leading it if they are given the right experience and encouraged to develop certain talents. A number of great companies recognise this and either ask business schools like Wharton or Harvard to run special programmes to help them develop leaders internally, or they do it themselves. Aegon, for example, runs such programmes via its own semi-virtual Aegon University, while GE has a much-admired "experienced leadership programme" which includes opportunities for participants to discuss real live issues with the chairman and board members.

There is a danger for such companies that they end up preparing people to run other companies. GE is a notoriously rich source of American CEOs. And Nabisco Holdings, a big food company, must be getting

something right too. This week it provided its third head of a major corporation in as many months, with the announcement of Richard Lenny's move to Hershey Foods. He follows colleagues who have gone to head Gillette and Campbell Soup.

It is not easy, however, to design effective leadership programmes. How much time should participants spend in the classroom and how much out there "leading"—be it up a rock face or in a virtual business? The value of real experience is well demonstrated by the way in which some of the top consulting firms have become a rich source of CEOs. It is almost as if the experience that consultants gain from hand-holding clients through hard times constitutes the ideal leadership programme.

This is ironic, since top consulting firms themselves tend not to have a leader in the accepted sense, even though they count among the most successful commercial organisations of recent years. Accenture and McKinsey, for instance, are partnerships which choose one partner to become, essentially, *primus inter pares*. Mr Collins suggests that McKinsey did have the sort of leader that he claims is essential to turn a good company into a great one. Marvin Bower, the legendary nonagenarian and *éminence grise* of "The Firm", is so unassuming that he did not even get rid of the irrelevant Mr McKinsey's name and try to replace it with his own.

Undoubtedly, some of the skills of leadership can only be learnt on the job. Many CEOs report, with hindsight, that it took them about 18 months before they felt they had "mastered" their role at the top. But many of the issues that they face are the same (only larger) than those faced by the leader of any small division within their organisation. Today's "empowered" junior managers are far better prepared to become leaders than were their predecessors.

But boards have to be persuaded to support their gradual (and often expensive) process of development. The reward comes when they have to choose a new CEO, a time that for most of them is not far off. By then they will have a pool of talent to choose from, and their final choice can be determined largely by the circumstances of the corporation at the time. That's far better than rushing off on a search for Elizabeth I in drag.

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* "Don't Hire the Wrong CEO", by Warren Bennis and James O'Toole.*Harvard Business Review*, May-June 2000.

** "Level 5 Leadership: The Triumph of Humility and Fierce Resolve", by Jim Collins.*Harvard Business Review*, January 2001.

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The challenge from up north

Mar 15th 2001 | BANGKOK
From The Economist print edition

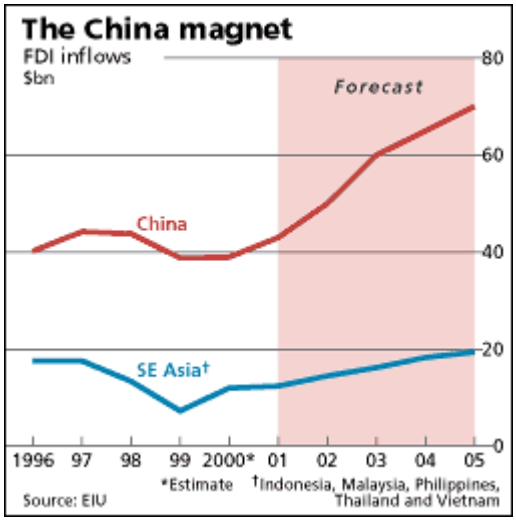
The tiger cubs of South-East Asia fear China's growing economic power. They should make the best of their neighbour's rise

ALL news seems to be bad news for South-East Asia's economies just now. Their growth rates are falling sharply, to between 2.5% and 5% this year, on current forecasts. Their financial systems, laid low in the crisis of 1997-98, are still fragile. The region's economies recovered from that calamity by exporting their way out of trouble. Now, one of their biggest export markets, the United States, looks unwell. Another, Japan, is in a persistent vegetative state. China, on the other hand, is not a market but a ferocious rival in the export business—and it gets mightier all the time. Could things be any worse?

History offers some reassurance. As each new Asian economy has opened up and expanded over the past few decades, it has increased trade with its neighbours and given everyone a boost. By the same token, China's rise ought to be good news. It is, after all, a vast potential market for South-East Asian goods, and it might even become the engine of regional growth. From this perspective, China's expected entry into the World Trade Organisation would be a shot in the arm for the region.

Still, a great shift in regional flows of capital is now under way, and it highlights just how much of a challenge China poses to South-East Asia. Not counting rich Japan, China gets nearly four-fifths of all foreign direct investment (FDI) into the region, whilst South-East Asia's pipsqueaks scramble for a share of the rest. That is roughly the reverse of FDI trends in the mid-1990s. This swing not only hampers South-East Asia's recovery. It also deprives its economies of much-needed technology and outside skills. As the chart shows, the shift is expected to last.

South-East Asia's economies face direct competition from a growing range of cheap, well-made Chinese exports, such as labour-intensive textiles (watch out, Vietnam and Indonesia) and higher-value electronics (a challenge to Thailand and Malaysia). Adding to South-East Asia's worries, as well, is the suspicion that the region once attracted lots of investment precisely because much of China's economy was closed. If China opens wide, who needs the tiddlers?



Friedrich Wu, head of research at DBS Bank in Singapore, argues that South-East Asia squandered its "golden decade", which began in the mid-1980s, by failing to invest in better skills and sturdier capital markets. Every investor, businessman and columnist in Asia has his list of things that the region should have done sooner. Since it patently failed to do any of them, the implication seems to be that South-East Asia is headed for the scrap-heap.

Don't capitulate, imitate

The best way to respond would be for South-East Asian governments to do better on several fronts. China's ascendance highlights three areas of reforms. Action on these fronts was a good idea all along, and is now urgent.

The first is far greater emphasis on clean governance, transparency and legal predictability. During the region's boom years, many foreign firms were happy to invest heavily in business and political connections (and put up with astounding abuse in the process) when they thought the economies they were betting on seemed sure winners. Now, though China carries political risks arguably as big as in South-East Asia, investors have had a dramatic change of opinion about the respective potential rewards. This is prompted, presumably, by the greater potential scale of the Chinese market. To redress the balance, South-East Asia needs to be seen to be very much cleaner.

Second, the region must resume its earlier efforts to lower trade barriers. This would bring all sorts of benefits, but the contrast with China highlights one that even protectionists ought to understand: size. The ten members of the Association of South-East Asian Nations (ASEAN) have long talked of a vastly expanded marketplace. With its natural resources, a wide range of industries, an emerging-economy cost base, and 500m workers and consumers, the long-promised ASEAN Free Trade Area (or AFTA) could offer a similar, albeit smaller, version of the single, unified economy that China is becoming, even if basket cases such as Myanmar remained to spoil the picture.

Retailers and consumer-goods companies would be keener to expand across an integrated market. Supply chains would also be easier to manage. A big pharmaceutical company could base itself in Singapore, for example, to produce bulk chemicals there, send them for processing near Indonesia's port of Surabaya, and then sell the finished drugs in Thailand. Scale would help in everything from trading cars to farm goods. The region's governments get excited about integrated rail networks and other fun projects. These will count for little if they crash into trade barriers.

The only sensible objection to AFTA is that it might shut out trade with other countries, China amongst them. That is a real issue, and would need to be addressed. Sadly, AFTA is on the ropes for the opposite reason: South-East Asia's governments are not embracing regional free trade, but backing away from it. Most to blame is Mahathir Mohamad, Malaysia's prime minister. Among other things, he is keen to protect a pet project, Proton, the national car company. Just across the water, Singapore's free-traders have watched back-tracking with alarm. Their response has been to open bilateral talks with countries outside ASEAN, including America, Japan and Australia, in the hope that this will create momentum for wider talks about free trade. It might, on the other hand, threaten to dissipate what little enthusiasm already exists.

China's growth also highlights the need to upgrade South-East Asia's domestic capital markets—the third main area for reform. Again, size is one factor, since individual bourses are no match for the deeper pools of liquidity available to China. Better regulation and financial reporting would also help investment capital to find the best opportunities, boosting productivity growth.

So far, governments have portrayed any such suggestions as foreign efforts to exploit local weakness. They are tempted to fall back on the region's saving rates, which are famously high. But a change is under way. The Malaysian government is now forcing firms to consolidate in banking, broking and insurance. Although that is partly to strengthen them against foreign competitors, efforts to make better use of local capital are also in train. Last month the government announced a series of rules to overhaul stockmarket practices. Thailand, too, has been promoting the use of mutual funds for both bonds and equities.

Most onlookers still hold little faith that South-East Asia's capital markets will see swift reforms. Governments are evading a crucial question. If they really wish to energise domestic savers, then they will have to take the very steps that foreign investors have long called for. How keen will Thai mutual funds be to invest in bank shares if the banks themselves distrust the legal system too much to lend? How much will Malaysian investors pay for a minority stake in a tycoon's subsidiary, if they have little idea what his companies are up to? Although domestic investors are a little more captive, the answers are not much different from the ones that foreigners have been giving. The sooner South-East Asia's governments realise this, the sooner they can respond to that sucking sound up north.

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Soaring Saigon

Mar 15th 2001 | HO CHI MINH CITY
From The Economist print edition

"EXCUSE me, do you speak French? I am a student." And so the sales pitch begins. After taking a moment to confer with a friend, the "student" returns to reveal a concern with more worldly matters. "I invest in stocks," he announces. "I want to trade large capital, but I only have small capital. I can help you invest."

AP

Oh happy hours

The student apparently has cracked capitalism. To drum up clients, he prowls the lounge at one of Ho Chi Minh City's six big stockbroking firms, just after Vietnam's official stockmarket index has closed. The index has been one of the world's best performers over the past eight months, rising 160% since it opened in July 2000. On most days, however, only a few lucky investors are able to buy the listed shares, and others are left hungry for alternatives.

That is good news for the student, a would-be dealer in unlisted, over-the-counter shares. And it is great news for Vietnam's communist government. The ruling party has learned a capitalist trick or two itself. One is: always leave them wanting more.

Vietnam has imposed several rules that, along with decades of communism itself, have helped generate an insatiable demand for shares. First, it started off with low share prices for the companies listed on the exchange (initially there were just two firms, but now there are five, all state-owned, plus a bond issued by a state bank). Second, it imposes a strict limit on daily price movements, which may not exceed 2% in either direction. Even though the market usually hits the upper limit, this has kept prices from taking off too quickly. The market's trading hours also slow things down a bit. It is open three days a week, for an hour each session.

The result of all this is that few investors cash in their profits by selling. And with so few sellers, those who show up to buy shares are mostly disappointed. Since orders may be placed only in person, and since unexecuted orders expire at the end of the session, you might expect this to create a mad dash to the counter on trading days. Most of the brokers, however, have devised a way to avoid this.

Before each trading session opens, clients draw numbers from a hat, to determine the order in which their trades will be executed (with an upper limit of 10,000 shares a trade). After placing their orders, the hopefuls then sit patiently in the lounge, quietly discussing the movements on the electronic board, and occasionally drawing charts for each other on graph paper. A pleasant hour later, the exchange lets the broker know whose orders have been executed, and an employee calls out the lucky numbers to the group. Most would-be punters file out slowly. A few stay to collect their winnings.

That, for now, is capitalism with Vietnamese characteristics.

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Japan's financial markets

Crunch time

Mar 15th 2001 | TOKYO
From The Economist print edition

Get article background

That sinking feeling

"PERHAPS my views are extreme, but I think this is a good time to buy." That was the advice of Hakuo Yanagisawa, Japan's financial-affairs minister, on March 13th, after the benchmark Nikkei 225 index plunged to its lowest close for 16 years. Few investors agreed—until, that is, the government came up with a sweetener two days later. On March 15th, Kiichi Miyazawa, the finance minister, proposed setting up a private fund to buy stocks, into which public money will be injected if it makes any losses. It is unclear whether the scheme, which has already been shot down once this year, will really be implemented. There is, after all, turmoil within the Liberal Democratic Party (LDP), which heads the ruling coalition. Nonetheless, the proposal helped lift the markets, at least temporarily. After the announcement, the Nikkei closed up at 12,153. The Topix, a broader index, was also up, though still near a two-year low.

If the respite is short, it spells trouble for Japan's banks. Their huge stock portfolios used to be full of unrealised gains to offset losses from disposals of bad loans. Now their portfolios are turning into large liabilities. This could push them into the red when they close their books at the end of the month. Banks must mark down any shares that fall more than 50% below the price at which they were bought or last revalued. At current prices, according to Hironari Nozaki, of ABN Amro bank, this will result in more than ¥1.2 trillion ($10 billion) of extra losses for the 16 biggest banks. Worse, he says that if the Topix falls to 1,100 (from its current 1,184), the losses could all but wipe out ¥1.8 trillion of profits that are expected for this year. The banks are starting to feel the heat: Fitch IBCA, a ratings agency, said on March 14th that it was considering downgrading the ratings of 19 Japanese banks. The following day, Sanwa Bank and Tokai Bank warned that they expect to make a combined ¥220 billion in losses this year.

In order to offset these losses, banks are trying to take profits by selling their better-performing stocks. That is helping push share prices even lower. Not surprisingly, it alarms the ruling party. Most of the LDP's emergency measures to counter falling shares, including its latest, have been cobbled together by the prime minister, Yoshiro Mori, and his cronies. The question is whether they will even be implemented, for Mr Mori's days look numbered.

A different approach, set out by reformers such as Mr Yanagisawa, appeared to cheer the markets last month, at least for a while. He wants to clean up Japan's debt-ridden financial system, by making banks speed up their write-offs of bad loans. But he has yet to spell out the nitty-gritty of his scheme. Doing as he suggests will not be easy. He will have to skirt, or dismantle, several regulatory barriers for parts of his scheme to work. And he will also have to explain how the banks are meant to fund the clean-up. Assuming he manages to do all this, he will then have to oversee a messy, even shocking, process that will entail job losses and lots of bankruptcies.

One of the lost jobs could be his own. Mr Mori's successor, whoever he is, will have to form a new cabinet, most likely next month. The new prime minister may face pressure to be cautious—if that term can any longer be applied in Japan to doing nothing—and replace Mr Yanigasawa with someone less bent on reform. There is no telling how far the markets might then fall.

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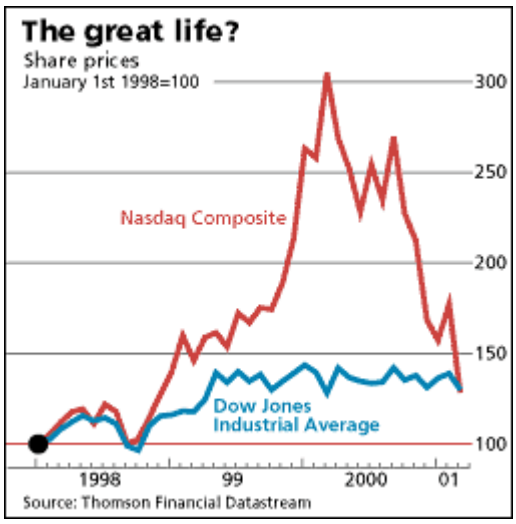
America's stockmarkets

The bear essentials

Mar 15th 2001 | NEW YORK
From The Economist print edition

"IF YOU come face to face with a bear, don't play dead too soon. Screw up your courage and stand your ground." Wall Street's investment gurus must have been reading "The Great Life: A Man's Guide to Sports, Skills, Fitness and Serious Fun", to judge by their calmness in the face of a charging bear.

Respect for staying cool under pressure goes in particular to Abby Joseph Cohen of Goldman Sachs. Last week she raised her recommended allocation for American shares from 65% of a suggested portfolio to 70%. She also forecast that by the end of this year the Dow Jones Industrial Average would be at around 13,000, and the S&P 500 at 1,650. She may be right, of course. But on March 14th, the S&P 500 closed at 1,167, down 24% from its peak a year ago, and the Dow dropped below 10,000 again, down 15% from its record high of 11,723. The volatile Nasdaq, which Ms Cohen wisely declines to forecast, dropped below 2,000, and is more than 60% down from its high a year ago. Taking their lead from America, average share prices worldwide are now down by one-fifth or more from their peaks. This bear appears to mean business.



The bull market lasted so long that many of today's investors (Japan excepted) have no clear recollection of what a bear market is like. Nobody knows what to expect.

Some stockmarket analysts, including several who have been bearish until quite recently, now forecast that share prices will rally. That, after all, is what share prices have done in the past whenever a 20% stock-price correction has met a sharp cut in interest rates at a time of low inflation. The futures markets anticipate a further cut in interest rates of at least half a point when the Fed meets on March 20th, on top of the one-point cut already seen this year.

The bulls also point to the so-called "Fed model", which describes the relationship between (a) long-term bond yields and (b) the ratio of the price of shares in the S&P 500 to next year's forecast profits. A year ago, the relationship suggested that shares were overpriced by 70%; today, they are priced about right. Moreover, the recent plunges in the indexes have been concentrated almost entirely in technology shares. In the S&P 500, technology shares are down by around 60% in the past year, whilst telecoms shares are down by two-fifths. Yet nine of the other ten industry sectors in the index have actually risen during this period. This cannot be called a broadly based panic, however agitated the television talking heads appear.

However, to judge by the price-earnings (p/e) ratio—the share price divided by the most recently reported 12 months of profits—the stockmarket still has much further to fall before it touches valuations comparable to those of previous bear markets. The S&P 500 had a p/e of less than 10 at its 1974 trough, and a p/e of 12 after the 1987 crash; it is now around 25, albeit down from a high of 35. As for technology shares, after touching a high of 165 a year ago, their average p/e (adjusted by the Leuthold Group, a research firm, to take account of numerous Nasdaq firms with no profits) is down to 30, roughly the median since 1960. On the other hand, the reduction in profit forecasts is outpacing even the fall in share prices. That is causing the forward-looking average p/e on the Nasdaq (based on estimated earnings over the next 12 months, rather than the past year) to soar.

Robert Shiller, whose book "Irrational Exuberance" was published last year just as the market peaked, points out that there are few historical precedents for the current downturn in the stockmarket, simply because the length of the bull run itself was so unusual. These precedents, such as they are, give few grounds for optimism, he says. He believes that a bear market could last for years—even if rallies provide excitement from time to time on the long journey down.

More than a decade after they peaked, Japanese shares are still testing new depths. In America, after the great crash of 1929, prices did not eventually bottom until 1932. Less famously, between 1968 and 1982, America endured a bear market in which the Dow fell by three-quarters in real terms.

One final piece of advice from “The Great Life” may be worth considering, in case things get worse in the months ahead. “If a grizzly gets you, hit the dirt. Lie flat on your belly with your hands and arms gripped over your head. Try not to thrash and scream. Lie still and stay that way even after the bear has started to leave.”

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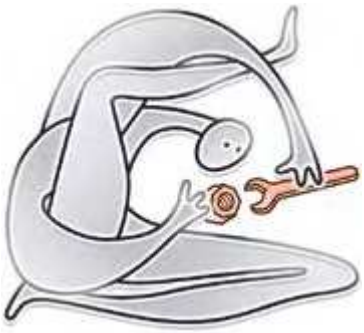
Economics focus

Measuring flexibility

Mar 15th 2001
From The Economist print edition

At their summit in Stockholm on March 23rd, European Union heads of government will consider member countries' progress on structural economic reform. How is such progress to be measured?



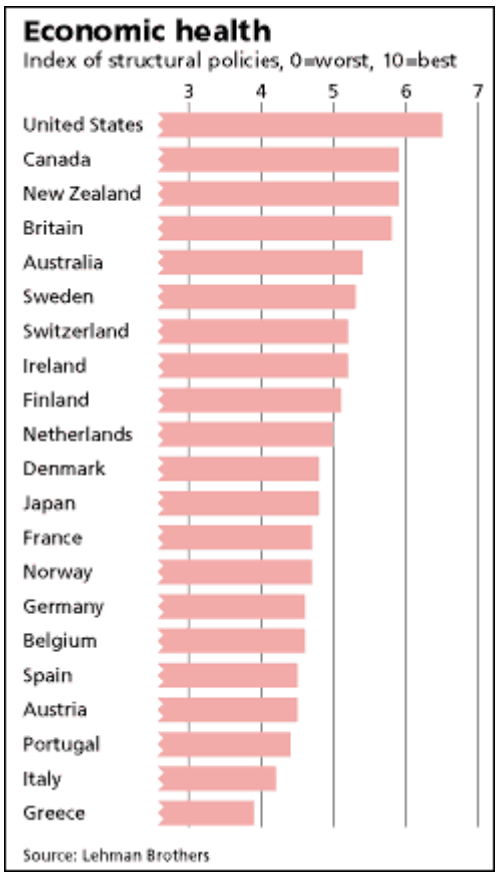
MICROECONOMIC policies—also known as structural policies—are just as important in influencing overall economic performance as macroeconomic policies, possibly more so. Much of America's superior economic performance over the past decade has surely been thanks to its microeconomic advantages. The trouble is, though it is relatively easy to judge the stance of monetary policy or the size of a budget deficit, it is much trickier to measure policies that make markets for goods and labour work better. A new report by Lehman Brothers makes a useful start in developing a method.

The bank's economics team in London has built a database that uses no fewer than 400 variables (qualitative as well as quantitative) for 21 countries, in the hope of gauging the importance of structural reforms for economic performance. The indicators range from educational standards and tax rates to shop-opening hours and Internet-access charges. Economists tend to talk loosely about structural rigidities, lumping all sorts of structural policies together. Lehman Brothers groups each country's strengths or weaknesses in micro-policy into three distinct categories.

• Policies that increase an economy's **long-term potential growth rate**, by increasing the supply of labour or capital, or by increasing the efficiency with which labour and capital are used. These would include measures of education, spending on research and development, and corporate taxation.

• Policies that affect **labour-market performance**, or to be more precise that reduce the non-accelerating-inflation rate of unemployment (NAIRU), the lowest rate of unemployment at which inflation is stable. If a reduction in income-tax rates or unemployment benefits reduces the NAIRU, this will temporarily increase the potential growth rate, but its main and lasting effect is on employment.

• Policies that increase **product-market competition** and so reduce costs throughout the economy. Examples are opening up markets to imports or attacking monopoly power.



The indicators included in each of these three groups are themselves split into four sub-categories. Labour-market policies, for instance, are divided into wages and costs, flexible working practices, employment protection, and taxes and benefits. Each of these variables is scored on a scale of zero (worst) to ten (best). The scores are then totted up and the average for the four sub-categories yields a total score for each of the three policy groups listed above. The overall ranking is then a simple average of these three. All very crude, no doubt—but a feat of data-gathering, and the results are interesting.

On your marks

As you might suppose, the English-speaking countries which have undertaken comparatively far-reaching micro-reforms in recent years—America, Canada, New Zealand, Britain and Australia—score highest. Japan and the euro area lag well behind. More surprisingly, there are some arresting differences between the rankings in the various categories. For instance, America has the best labour- and product-market policies, but in policies that affect its long-term growth it comes second to—can you guess?—Sweden. America is let down by its relatively poor educational standards: on that, it is ranked only 11th out of 21. Japan scores quite well on labour-market policies (eighth) but does badly on product-market competition (17th). Spain ranks ninth on the labour market, but 20th on policies that affect growth.

The report notes significant differences amongst European economies. Of the big three in the euro area, France, Germany and Italy, France scores highest on its overall policies. But several smaller European economies, notably Sweden, the Netherlands and Ireland, do even better. The old generalisations about "Eurosclerosis" are out of date.

Weaknesses in this research do need to be emphasised. It excludes some policy changes in Europe, such as tax cuts in France and Germany, which only recently took effect. These would modestly improve some countries' scores. The bank plans to update the scores annually. A much bigger problem is that all the variables are given equal weight—yet some are presumably much more important than others. For instance, within the indicators affecting potential growth rates, e-commerce sales per head have the same weight as investment in information technology as a share of GDP, or as the percentage of the population with tertiary education. That makes no sense. Nor is it obvious that labour-market and product-market policies should have identical weights.

Given all this, it would be wrong to bet much on a country's precise ranking. For instance, Germany scores slightly higher on labour-market policies than France. Most observers, however, would argue that France now has a more flexible labour market—as suggested by its faster rate of growth in jobs in recent years (see article). The next step in the project is to use the database to understand the effect of different types of structural policies. That work ought to suggest more appropriate weights.

Nevertheless, the structural indicators probably do give a fair, if broad-brush, picture of countries' policy weaknesses. The doctors have long known that the German patient, say, looked sickly next to America. Now they have more information to guide them in considering remedies.

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Banking for the well-off

Mad for the mass affluent

Mar 15th 2001
From The Economist print edition

IN 1999 the new craze for bankers was stand-alone Internet banks. Now the fashion in Europe is to chase a group of people known to the trade as the "mass affluent"—that is, the moderately rich, of whom there are plenty these days. Merrill Lynch and HSBC began the fad in April last year when they announced a new joint venture aimed at such people. The latest to join in are Lloyds TSB and Goldman Sachs, with their new joint product, "Create".

To qualify as a member, most agree, a person needs between *euro*50,000 ($45,600) and *euro*500,000 of investible assets. Those with less are judged to be "mass market"; those with more are "core affluent", while the filthy rich are "high net worth". Across Europe, according to Commerzbank, there are something like 24m mass-affluent people, with about *euro*6 trillion to invest. These people, though more numerous than before, are not a new group, of course—but until now most of them have kept their money safely in savings accounts at ordinary retail banks. Private banks and investment banks ignored them, preferring to cater only for the very rich.

A wide variety of firms have now decided that the mass affluent are worth the pursuit. Private banks such as Credit Suisse reckon they can go downmarket, because the Internet makes distribution cheaper. Online brokers such as Charles Schwab, on the other hand, are homing in on the mass affluent as part of a plan to move upmarket and away from simple share trading. Ordinary retail banks like Lloyds TSB hope that mass-affluent customers will be more profitable than the mass-average, since the banks can cross-sell products to them. Now, European retail banks and insurance companies fear that their best customers might defect to new rivals unless they do something to keep them. They are starting to fight back.

It is too early to predict who will win big shares of this new market. Will the newcomers succeed in luring customers away, or will the old guard rally round and hang on to them? Many of the new products are still being tested and refined. So far, though, it is not the giants of European finance that are making the most headway, but a handful of small, specialist companies. Last year, two local investment-adviser networks, Bipop-Carire and Banca Fideuram, accounted for 42% of new money going into Italian mutual funds. The heaviest loser was Banca Intesa, Italy's largest bank. The key to the success of Bipop-Carire and Banca Fideuram appears to be an emphasis on face-to-face advice.

In time, though, smaller companies may falter against big institutions with global brands and pan-European ambitions and capabilities. The alliance of Merrill Lynch and HSBC is the competitor that financial companies in Europe fear the most, according to Commerzbank. Merrill Lynch offers its equity-investing knowledge and HSBC its presence in global retail banking. Their product consists of an online broking account through which customers can, among other things, trade domestic and international shares, make use of online banking facilities and read Merrill Lynch's global investment research. As yet, face-to-face advice is not on offer, which probably means that only a slice of the mass affluent—the "self-directed"—will use it for buying shares and mutual funds. At some point, they admit, that may need to change.

Whether to offer face-to-face advice is, in fact, a fiercely debated issue among financial institutions that target the mass affluent. Most of the online brokers do not give any. Some of the mass affluent are happy to do their own research online, and do not want "expert" help. But McKinsey, a consultancy, thinks that most will want some advice before making their investment decisions. Such advice is expensive to provide. In both France and Germany, reckons McKinsey, the expense of financial advisers means that it currently costs more to advise the typical mass-affluent customer than his investments give back in fees. Financial institutions risk being caught between two unattractive choices: offering advice and reducing their margins, or offering no advice and winning fewer customers.

Common to all hopeful theories about the mass affluent is the belief that they want to take their money out of low-yielding current accounts and put it into shares and mutual funds. Bankers are happily comparing the amount of cash that people hold in America—only 13% of their total wealth, according to

Morgan Stanley—to countries in Europe, where, for instance, Germans keep 33% of their wealth in cash. Europe, bankers believe, will become more like the United States in this respect. But Americans enjoyed a rising stockmarket for years. Many own shares because they are paid partly in stock options. Europeans may never want to hold as much equity, especially if stockmarkets continue to fall as in recent months.

Some large institutions have decided that the mass affluent are not worth the effort. UBS discarded its services for the mass-affluent in October last year after it bought PaineWebber, an American broker. The people at PaineWebber, experienced in the American market, advised UBS that Europe's mass affluent were unlikely to yield worthwhile profits. The number of competitors crowding in, they said, would lead to falling prices and narrow margins. UBS now says that it will pursue the core affluent instead. Late last month Bank Vontobel, another Swiss private bank, abandoned its plans to offer an online bank aimed at the mass affluent, citing costs and the time required to make profits.

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Britain's Prudential

Pond-leaping

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From The Economist print edition

THE legendary "Man from the Pru" has astonished Wall Street by ditching his English trenchcoat and trilby for the helmet and shoulder-pads of the Houston Oilers. It could be essential to his long-term survival.

Prudential, Britain's second-biggest life insurer, and American General Corporation (AGC), headquartered in Houston, have a job explaining their $20 billion-plus merger plans to a sceptical market. It is the biggest foreign acquisition of an American financial firm. The merged company, under the Prudential banner, would become the world's sixth-biggest insurer. Prudential's share price fell by one-sixth on March 12th, when the deal was announced, though it rose a little when executives started their charm offensive. The price looked expensive, at a 30% premium to AGC's share price. The premium shrank as Prudential's shares fell.

The Pru argues that, by buying a Texan seller of annuities, life insurance and consumer loans, it gains long-term growth in a market where size increasingly counts. And, says Prudential, the healthy cashflow of the merged group will do much to support the group's budding interests in Asia.

In buying a life insurer, the Pru took the market by surprise. Last year it listed on the New York Stock Exchange, so another acquisition in America—it bought Jackson National Life in 1986—was on the cards. Other European insurers have been busy hunters in America, but for asset-management companies. Prudential was thought to be doing the same. In January it was said to be a bidder for Liberty Financial, a company with $77 billion under management.

The trouble with asset managers, says a former executive at Prudential, is that "you pay $9 billion for goodwill, and the managers go fishing." AGC's core business cannot slope off that easily. Its real value, says Prudential's finance director, Philip Broadley, lies in its distribution. Another attraction is AGC's cashflow, which should provide $1 billion a year in profits to invest in Prudential's Asian businesses. Prudential has operations throughout Asia, and even China. Last month it bought Orico Life in Japan, for $194m. What's more, says Robert Gillespie of UBS Warburg, which is advising Prudential on the merger, AGC's American insurance products better suit those Asian economies, such as South Korea and Taiwan, that are imbued with American culture.

People close to the British firm emphasise that the plan has not been cut to suit oversized personalities. Prudential's chief executive, Jonathan Bloomer, who will head the merged entity, is no "razzle-dazzle egomaniac", says Mr Gillespie. Razzle-dazzle or not, the quest for size probably makes sense. In Britain, margins are being squeezed by competition, a government-sponsored stakeholder pension scheme, low inflation and a fall in expected equity returns. In part to address these problems, Prudential bought M&G, a British retail fund-management firm, in April 1999; but the winners in that British market may turn out to be private-banking specialists who can offer cash management and fixed-income investments as well as equity products.

One way to achieve size would be to go deeper into Europe, which is, after all, the Pru's backyard. The leap into America appears to be an admission that continental Europe is not a happy ground for life insurers. Prudential has only distribution agreements in France and Germany, and a single branch in Paris (it sold unsuccessful ventures in the Netherlands and Italy).

This may look flat-footed, but it has been difficult to do more. The goal of a single European market for financial services is far from being realised, particularly in retail products. No insurer has yet been able to build a successful pan-European network. The move into America is an example of regulatory arbitrage—going where regulation is not in a state of flux. (The American operation will be re-based in New York.) Still, the Pru says it will not turn its back on Europe. It says it intends to keep its eye open for an acquisition in a core European market: France, Spain, Italy or Germany.

So America beckons. Prudential's shareholders are expected to vote on the deal by July. In the meantime, maybe another predator, encouraged by the fall in Prudential's share price, will see the Pru itself as a target.

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Cash in your chips

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IT IS the biggest bank in Russia, and one of the oddest—which, if you look around, is saying a lot. Sberbank, the national savings bank, is 61%-owned by the same body that regulates it: the central bank. That makes it seem safe. Many Russians refuse to trust any bank. The others tend to put their money with Sberbank.

Awash with cash, it lends to industrial companies that the government wants to support. Now it is infuriating minority investors with plans for a capital increase in the form of new shares. Kim Iskyan, a banking expert in Moscow, describes this as “expensive, dilutive, and unnecessary.”

Ostensibly, the new shares are needed to meet Russia’s capital-adequacy requirements, which say that banks’ equity should be no less than a tenth of their assets. Sberbank’s equity is 10.7% of its assets, which meets the requirement and seems, on the face of it, adequate. This makes the timing of the issue look odd. It is also unclear why the bank chooses this way of strengthening its finances. It could more sensibly cut its overhead (its managers like huge, luxurious buildings), or lend more cautiously.

The shares are being sold remarkably cheaply, at just 25% of book value. Who is going to buy them? In theory, existing shareholders. But many Moscow financiers suspect that they will end up with a well-connected tycoon, or even with the central bank itself. Its governor, Viktor Gerashchenko, enjoys close personal ties with Sberbank and adamantly defends its privileged status.

A group of 15 institutional investors, which owns 10% of the bank, is calling an emergency shareholders’ meeting to demand the resignation of top officers, including the president, Andrei Kazmin. Given the central bank’s clout, picking a fight over Sberbank’s future seems more likely to bring good publicity for the fund managers involved, rather than actual results. Boris Fedorov, a prominent champion of better corporate governance in Russia’s biggest companies, and one of Sberbank’s independent directors, believes that the move is mistimed. “Taking on Gerashchenko when there is a chance to get him by the balls—that I’d love to do,” he says. But now is not the time. There is little public sympathy in Russia for the minority shareholders (many of them foreign) who stand to lose.

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European economies

France 1 Germany 0

Mar 15th 2001
From The Economist print edition

The biggest economies in the euro area are diverging—and it is France that is outpacing Germany

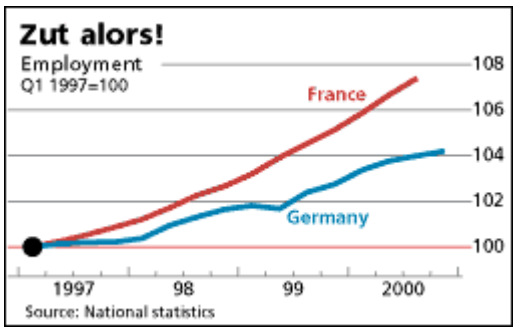
ONLY one of the world's main central banks has chosen not to cut interest rates this year: the European Central Bank. At its meeting on March 15th, it left interest rates unchanged again, at 4 3/4%. That may be the right policy for the euro area as a whole, but it is too high for at least one struggling member-economy—Germany.

Before the euro was launched, economists agonised about whether a single monetary policy would be appropriate for all economies at all times. Specifically, some feared that a common interest rate for the whole euro area might be too high for slowing economies with rising unemployment, and that it might push such countries deeper into recession. Back then, France had one of the highest unemployment rates in Europe, along with particularly rigid markets for goods and labour: it was seen as a likely victim of the new regime. In Germany, by contrast, the concern was rather different: that, precisely because of such "asymmetries", the ECB would be laxer in its monetary policy than the old Bundesbank, and would keep interest rates too low.

Things have not worked out quite as either side supposed. It is Germany, not France, that finds itself wanting easier money than the others. Whereas France's economy has been a star performer over the past few years, Germany's has trailed behind. Since the beginning of 1997 Germany's GDP has increased at an average annual rate of 2.1%, France's at 3.2%. And Germany's economy now seems to be sputtering. In the fourth quarter of last year, its GDP growth slumped to an annual rate of only 0.8%, while France's surged at a rate of 3.9%. Note that Germany not France is the odd man out: taken as a whole, the euro area excluding Germany also grew at an annual rate of about 4% in the fourth quarter.

Germany's economy seems to have remained sluggish into this year. New orders have slumped and unemployment rose in February for the second consecutive month. For the first time in almost half a century, Germany has a higher jobless rate (9.3%) than France (9.0%). The German government is still forecasting growth of 2 3/4% for this year, but independent forecasters are slashing their numbers. J.P. Morgan Chase expects Germany to grow by only 1.8%, making it one of Europe's slowest-growing economies.

German manufacturers are slightly more exposed to America's slumping market than their French counterparts, through foreign direct investment in America as well as exports. However, Thomas Mayer, an economist at Goldman Sachs, argues that most of the blame for the divergence lies with domestic demand. Consumer spending, he argues, has been weaker in Germany than in France, because its less buoyant job market has curbed real incomes. Over the past four years, employment has increased twice as fast in France as in Germany.



Mr Meyer believes that France's growth has been faster than Germany's because it has done more to reform its labour market. In recent years, the government has relaxed regulations on part-time work, fixed-term contracts and temporary-work agencies. It has reduced social-security contributions for low-paid workers and eliminated contributions for home helps. New tighter rules for claiming unemployment benefits should also encourage more of the unemployed to find work. Contrary to widespread fears, the 35-hour week does not seem to have destroyed jobs: if anything, it seems to have increased flexibility in working-hours. (It may cause more problems when it is extended to smaller firms next year.)

France still has far to go in deregulating its labour market, but it is moving in the right direction. Since taking office in 1998, Chancellor Gerhard Schröder's government has also pushed through some

important structural reforms, such as reducing business taxes. However, labour-market flexibility has, if anything, been reduced by measures designed to placate the trade unions. In a draft report leaked last week, the OECD sharply criticised Germany for failing to deregulate its labour market.

Mr Schröder's government has rescinded some measures passed by the previous government of Helmut Kohl, such as the reduction in statutory sick pay and the easing of restrictions on firing by small firms. In addition, the government has imposed new social-security contributions on low-wage jobs, and tightened restrictions on the self-employed, part-time work and fixed-term contracts. Businessmen are particularly upset by the decision to extend the system of workers' co-determination in the management of companies.

In the long term, the solution to Germany's slow rate of job creation lies with labour-market reform. In the short-term, if the economy remains sluggish and unemployment rises, discontent about the whole euro project may rise.

How much lower would the interest rate be, if it were set to suit Germany alone? One way to answer this is to consult the Taylor rule, devised by John Taylor of Stanford University. It calculates the appropriate interest rate by weighing the difference between actual inflation and the central bank's target for inflation (the euro-zone target range is 0-2%) alongside the "output gap" (the difference between actual and trend output). Plugging in the numbers, using "core" inflation, which excludes the prices of food and energy, and taking our own estimates of the output gap, you find that interest rates in Germany should be half a point lower than in the euro area as a whole.

Not much of a difference as yet, you may say—but the longer Germany's economy grows more slowly than the rest, the bigger the difference will become. How long before the Germans start yearning for a central bank of their own?

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Cloning around

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From The Economist print edition

Human cloning is the stuff of fantasy, but a group of maverick scientists wants to make it real

Get article background

SCIENCE fiction has not, on the whole, been kind to those at the cutting edge of human reproduction. From “The Boys from Brazil” to “The 6th Day”, Arnold Schwarzenegger’s latest oeuvre, people in the awkward business of human cloning appear as crazed, power-hungry, profit-seeking individuals on the fringes of society.

On March 9th, life took a turn towards art as a band of controversial scientists gathered before a mob of journalists in Rome to launch a project to produce a human by cloning. The protagonists—led by Severino Antinori, an Italian infertility specialist, Panos Zavos, an American researcher in the same area, and Avi Ben Abraham, an Israeli biotechnologist—plan to start tinkering with cells in the laboratory by the end of this month and to have a human clone alive and kicking by 2003. They claim their aim is to tackle male infertility by allowing those not up to the job of old-fashioned or even test-tube fertilisation, to have children who share their genes.

The team’s flamboyant scheme, which is long on secrecy but short on substance, has been condemned from all quarters and on a variety of counts. Many oppose the whole notion of cloning humans as an affront to human dignity. Bioethicists are troubled by concerns for the clone’s welfare, the viability of his or her family and the implications for wider society. Lawyers fret about the legality of such science, given regulations governing human cloning and embryo research in various countries. More surprisingly, strong arguments against the initiative come not just from those opposed to the principle of reproductive cloning, but also from researchers at the forefront of the technology.

Veterans, such as Alan Trounson at Monash University in Melbourne, Australia, have succeeded in cloning several species of mammal. But they are appalled at the prospect of trying the technique in humans when its problems have yet to be worked out in experimental animals. Dr Trounson, like many leading practitioners, is certain that human cloning can and will be done. Some of his colleagues, indeed, look forward to that day. What worries them is not the end, a cloned baby. Rather, they have serious doubts about the means, which will involve stillbirths and sudden deaths for as long as cloning remains a mysterious process.

Conventional fertilisation, in which sperm meets egg, is a complex event that brings together two half-sets of genetic material—one from each parent—to provide the resulting individual with a full complement of chromosomes. Cloning bypasses this by putting the genetic material from a pre-existing adult cell (which already carries a full complement of chromosomes) into an egg that has had its half-set of chromosomes removed. If all goes well, the egg will then develop into a normal, healthy individual.

Baby steps

Unfortunately, all seldom goes well. Naturally formed embryonic nuclei have the advantage of being new to the world. They are therefore adapted to the task of turning on the genes necessary for development. The nuclei of adult cells, in contrast, have settled into a quiet middle age. In them, most of the genes for early development have been turned off and are difficult to reinvigorate. The great leap forward in cloning came when Ian Wilmut and his colleagues at the Roslin Institute, near Edinburgh, found a way to awaken these sluggish nuclei. They produced a lively and, to all intents and purposes, normal sheep, known as Dolly, from the nucleus of a mammary-gland cell.

Even so, according to Alan Colman, a nuclear transfer expert at PPL Therapeutics, a British biotechnology firm, cloning is still a crude process. For every 100 eggs used, a researcher is lucky to end up with a single cloned calf or a solitary pig in a poke. By comparison, *in vitro* fertilisation (IVF) has a success rate of roughly 25%.

The difference lies in the large number of individuals that fall by the wayside at every step of the cloning process. This begins with a stimulus, such as an electric shock, that promotes the fusion of an egg cell that has had its nucleus removed with a donor cell whose nucleus it will assume. Roughly four-fifths of fusions succeed, but only two-thirds start down the path of development that leads to a new individual.

After a couple of days, the newly nucleated cell should have divided to form a ball of cells called a blastocyst. Here again, losses occur, and only 10% of the original egg cells used in nuclear transfer make it this far. Once the blastocyst is implanted in the womb, at most 20% of pregnancies are carried to term, compared with three-fifths in IVF. The fetuses that are spontaneously aborted are often abnormally large. They also tend to have severe deformities, and their placentas are distorted. Finally, and most disturbingly to Dr Colman, half the cloned (and seemingly normal) cows and sheep that make it through to birth drop dead within three weeks. Post-mortem examination often reveals subtle, but nonetheless fatal, flaws in the heart muscle or kidneys of these animals—the sorts of changes that are hard to predict and therefore almost impossible to prevent.

Researchers are only beginning to get a sense of the range of things that can go awry in cloning. Certainly, something unusual is happening in the process by which the egg cell sends out signals to reprogram its new nucleus and put the developmental genes back into action. There appears, in particular, to be a problem with a phenomenon known as genetic imprinting.

Most genes in a cell are present as two copies, one from the mother and one from the father. Imprinting is the process by which one of those copies is silenced so as not to overdose a cell with whatever that gene provides. Although the transplanted nucleus enters the egg properly imprinted, reprogramming messes this up. As a result, some genes become too active and others fail to work at all. By studying the expression patterns of individual genes, cloners have found that certain genes which should be turned on in early development, such as those that control the implantation of the embryo into the uterus, are activated much later in cloned embryos.

Unfortunately, they have little idea why this is the case. Nor do they know the full set of genes that go awry, which makes foolproof screening of faulty embryos impossible. Without such safeguards in place, there is no reason to assume that human cloning will not repeat the messy trial and error of current animal research. Not surprisingly, those who know reproductive cloning best are urging others to refrain from trying it on people until the bugs have been worked out on hundreds more animals.

Means, motive, opportunity

Such uncertainties do not deter Dr Antinori and his crew. They believe the technical problems associated with animal cloning have been greatly exaggerated, and may not be relevant to humans. In any case, they reckon that their experience with IVF gives them “enough knowledge and sophistication and technology to break the rules of nature, and now is the time.”

Dr Antinori is certainly well known in IVF circles, but more for such stunts as impregnating a 62-year-old woman using IVF than for his scientific prowess. In any case, success at IVF—which was thoroughly tested on animals before moving into humans and was never plagued by the sorts of trouble seen in nuclear transfer—is no guide to success in cloning. As yet, the team has little expertise in nuclear

transfer, and although its members say they will try to bring the right people on board, the best in the business are unlikely to be drawn in while human reproductive cloning remains at the margins of scientific and social respectability.

As to cost, Dr Trounson estimates that it will take at least $1m to clone a human, given the equipment, labour and hundreds of human eggs that will be required to get a single, live birth. There are enough infertile couples desperate to reproduce, enough small sects eager to keep their numbers up and their gene pools pure, and enough megalomaniacs intent on replicating themselves, to make money the least of would-be cloners' problems. Indeed, Dr Zavos claims the consortium has more than enough cash to do its work, and up to 700 volunteers ready to take part. Few scientists believe that the group will reach its goal within the next two years, but many acknowledge that the technology will one day permit human reproductive cloning. Whether society will condone it is an entirely different matter.

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The end of *Mir*

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Sometime over the next few days, if all goes according to plan, Russia's *Mir* space station will be dumped into the Pacific Ocean. *Mir* has had a good run. It has been in orbit for 15 years, twice its design life. During that time it has survived fire, collision with another spacecraft and—most threatening of all—a constant shortage of money. What it could not survive was competition from the American-led "International" Space Station (now dubbed Space Station *Alpha*, in a none-too-subtle attempt to rewrite the history of the colonisation of space). Most of the craft, which weighs 137 tonnes, will burn up on re-entry. About 25 tonnes of the harder hardware, distributed into 1,500 pieces, is expected to make it through the atmosphere intact. The Russians say they are confident this will pose no risk to life, limb or property. Just in case, they have taken out $200m of insurance.

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Solid-state physics

Superduperconductivity

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Rumours are circulating of a superconductor that works at room temperature

LIKE spring, superconductivity is suddenly in the air. New types of superconductors—materials that transport electric current without loss of energy—seem to be popping up everywhere. In Japan, a compound of magnesium and boron that has been lying around on chemists' shelves for decades turns out to be a superconductor with practical potential. In America, plastics have been made superconducting by integrating them into a transistor. And from Croatia comes a tantalising tale of one that works at room temperature.

The problem with most superconductors discovered so far is that they only do their stuff below –240°C. In the 1980s, however, "high temperature" superconductors were found that work up to a balmy –100°C. That excited people because above –196°C things can be kept cold with liquid nitrogen, a relatively cheap material. But supplying liquid nitrogen reliably is a complex engineering task, which may explain why applications such as superconducting long-distance power cables have failed to take off. One problem is that if the nitrogen accidentally runs out, what was once a superconductor turns into an insulator, with potentially disastrous consequences for any electrical system.

If a superconductor that worked at room temperature could be found, it would be tremendously exciting. It might be the ultimate disruptive technology, heralding a revolution in the way electrical systems are made. Consequently, an unpublished manuscript describing a room-temperature superconductor has been spreading with remarkable speed through the scientific community. Although it remains to be officially confirmed (or denied) by a major superconductivity laboratory, the new material would, if genuine, bring superconductivity into the realm of ordinary electrical materials.

The manuscript comes from a collaboration between researchers at the University of Zagreb, the nearby Ruder Boskovic Institute, and a local ceramics company called AVAC. This group, led by Danijel Djurek, claims that its material, which is a compound involving silver, lead, carbon and oxygen, is a superconductor (at least in some cases) at temperatures below 70°C—that is, way above room temperature. The Croatians have apparently done their homework, measuring the so-called Meisner effect, a tell-tale of superconductivity in which a magnetic field is expelled from the material. But the same group reported a possible room-temperature superconductor of similar composition a couple of years ago. That was never confirmed, so some people are dubious about this new result.

Shades of cold fusion? Perhaps. Laboratories around the world are busy synthesising and testing the newly described material, although their researchers are cagey about reporting the results of anything that concerns what is, after all, still an unpublished article. And to add to the confusion, the material the Croatians have created comes in several varieties, each with a slightly different composition. Difficulties in separating and purifying these varieties could account for results that are only erratically reproducible.

Even if the reports are untrue, research into superconductivity has been blossoming elsewhere. The magnesium boride tested by Jun Akimitsu and his colleagues at the Aoyama-Gakuin University in Tokyo is cheap to synthesise compared with its high-temperature cousins. And even though it works only at a frigid –234°C, it is a good electrical conductor even in its non-superconducting state, so a sudden cooling failure would not have the dire consequences associated with so many other sorts of superconductor.

If that were not enough, Hendrik Schön and his colleagues at Lucent Technology's Bell Laboratories in New Jersey have also demonstrated superconductivity in a plastic called polythiophene. To make this material superconduct, the researchers used a method that they have pioneered on other polymers over the past year: they built it into a so-called field-effect transistor. The electric field generated in such a transistor is used to change the charge in a film made of polythiophene. Depending on the strength of this charge, the plastic switches from being a poor conductor to a superconductor.

The temperature at which the transition happens is too low for any useful application (about –270°C). But Dr Schön and his colleagues have uncovered a rich vein for future research: tweaking such plastic transistors could easily yield something practical, at least for electronics. So, even if the rumours of a room-temperature superconductor turn out to be false, the field of superconductivity seems to be brimming with new ideas. Perhaps this time, some of them will make it to the market.

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Climate change

Getting real

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FOR years, scientists looking at the question of why the earth's lower atmosphere seems to be heating up have suspected that the culprit is the greenhouse effect. This phenomenon makes the planet habitable, by trapping heat that would otherwise be lost into space. Without it, the earth's surface would be a chilly –20°C or so. But the strength of the greenhouse effect depends on the chemical composition of the atmosphere, because the phenomenon is due to the absorption of infra-red radiation by various gases in the air. Alter the levels of those gases and you alter the level of the effect. And human activities have been doing just that by pumping out methane, ozone, CFCs and especially carbon dioxide with gay abandon for a century or more. The result, goes the argument, is global warming.

Though most climate scientists are confident of this theory, they have had, so far, to rely on indirect evidence for it. In particular, their assessments have depended heavily on measurements of temperature from ground-based instruments. But these are inadequate in many ways. Some parts of the world (Europe and North America in particular) have yielded much more data than others, so obtaining meaningful global averages is hard. On top of that, data collected on land conflict with those collected at sea. And data collected at the surface, whether land or sea, seem to tell a different story from those taken at altitude by weather balloons. The resulting confusion has given wiggle room to those who—forgetting the old observation that absence of evidence is not evidence of absence—would rather not believe that global warming is happening at all.

Now, a team of atmospheric physicists at Imperial College in London has come up with something that will make such wiggling far harder. In a paper in this week's *Nature*, John Harries and his colleagues describe their analysis of the longwave infra-red radiation leaving the earth. This is the radiation the planet sheds as it cools, and it is the radiation captured by the greenhouse effect. Dr Harries's conclusion is that the greenhouse effect has changed over the past few years in exactly the way that those who believe in global warming would have predicted.

The team arrived at this conclusion by comparing two sets of satellite data. One was collected in 1970 by an instrument called IRIS. The other was collected in 1997 by a different instrument called IMG. In order to make the comparison, a certain amount of massaging was required. For example, IMG had a narrow field of view—just 64km². IRIS, by contrast, recorded from 10,000km² at a time. The team's data-crunchers had to perform some fancy mathematical tricks to compensate for this difference. On the other hand, IMG sampled a much bigger part of the spectrum than IRIS could manage. That meant discarding part of the data collected by the more recent instrument.

The researchers also had to select their observations carefully. They preferred data collected over the ocean, since the longwave radiation from water is more uniform than that from land, and thus easier to analyse. They also took steps to reduce the impact of cloud cover on the data, since this, too, affects the passage of longwave radiation.

The results, nevertheless, were striking. In the parts of the spectrum absorbed by carbon dioxide, ozone and methane, the amount of longwave radiation escaping from earth dropped sharply between 1970 and 1997—and did so in a way that matched predictions based on the known increases in levels of those gases. A weaker, but similar, effect was seen for CFCs.

There are caveats. The two sets of data were collected at different periods of the calendar year, and there was no continuous 12-month overlap between them—so the team could not fully account for seasonal variations. Also, examining two snapshots is clearly less satisfactory than having a continuous record of the changes as they happened over that entire period.

Nevertheless, the upshot is that Dr Harries and his team have come up with the first direct evidence confirming an increase in the greenhouse effect over the past three decades. That is something worth pondering in a week when George Bush, America's president, announced that he had no intention of

honouring his campaign pledge to regulate emissions of carbon dioxide.

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Wonderful Will

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Ambitious and untidy, Shakespeare's history plays are a huge undertaking for anyone. The RSC's new productions in London hone them into shape

John Haynes

THE 1590s were an extraordinarily fertile period in Shakespeare's life, one in which most of his comedies were composed, including "A Midsummer Night's Dream" and "The Merchant of Venice", and in which he explored the possibilities of tragedy in "Romeo and Juliet" and "Julius Caesar".

In among all this he was also dramatising his country's history—the rise and fall, through usurpation, murder and civil war, of a century of English kings, from the accession of Richard II in 1377 to the Battle of Bosworth in 1485. This was the date when Richard III (of the House of York) was defeated by Henry Tudor (of the House of Lancaster), and a unified, centralised English nation-state was born. With the coronation of the victor as Henry VII, and his marriage to Richard III's niece, the story is brought to the point where a golden future for England can be prophesied under Henry's heirs (Elizabeth I being one): heirs who, in the final words of "Richard III", will "Enrich the time to come with smooth-faced peace,/With smiling plenty and fair prosperous days."

It is unlikely that Shakespeare started out with the intention of writing a great historical cycle. The plays were not written in chronological order: the second tetralogy (the three "Henry VI" plays and "Richard III"), was written first, in the early 1590s; and the first tetralogy ("Richard II," the two parts of "Henry IV", and "Henry V") came later, from 1595 to 1599. Adrian Noble, the artistic director of the Royal Shakespeare Company which is currently mounting both tetralogies, challenges the opinion that they can even be said to represent a coherent historical point of view—Shakespeare's approach, he says, being "fragmented, kaleidoscopic, highly complicated, even random at times".

It is true that the plays are written in widely different styles: the bloody and iambic brassiness of the "Henry VI" plays ("O, were mine eyeballs into bullets turned/That I in rage might shoot them at your faces!") gives way to the intimate wit of the "bottled spider", "Richard III", whose soliloquies leap, as it were, beyond the choric formalism of so much of that play, into a surprisingly modern idiom; then comes the inwardness and lyricism of "Richard II", whose fatal yielding of the crown to Bolingbroke (afterwards Henry IV) seems to open the door to the great rush of comedy and subversion in the two parts of "Henry IV".

In recognition of this variety, and in contrast to previous stagings of parts of the cycle, the RSC has given each play its own director and designer, while at the same time "through-casting" the characters that appear in more than one play. Thus the narrative continuity that certainly does exist from play to play, with frequent references from one to another, is also acknowledged. But it's more than a question of narrative: only by seeing the plays in sequence, and with the same actors, can one catch that sense, so strong in Shakespeare, of time and chance, of characters both as individuals and as pawns, caught in nets cast by history and themselves casting nets that will in turn entangle their successors.

An important point about these theatrical marathons, even the small section offered by "Henry IV" parts I and II, is that you come away with the exhausted feeling of having lived through something. Here in the two parts of "Henry IV", so much distance has been travelled, such stretches of history burningly recalled, of present argument and future aspiration, such leaps in mood and style. These are wide, expansive plays, but they are also very patterned, with paired characters (Hal and Hotspur, Falstaff and Henry IV) and contrasting places (court and tavern, battlefield and orchard), each of them echoing, caricaturing and commenting on the other. And these characters know how to work the language. They think in images, they find the concrete word for the abstract idea, metaphors take flight in great skeins of verse and prose—whether it's an earl on how to prepare for battle, or Falstaff on drinking sack.

The great joy of this production is that the actors relish just this. They want to communicate, to take you

with them. It is sometimes said that Shakespeare should be allowed to speak for himself, as though the director and the actors have only to get themselves out of the way for the plays to reveal themselves. In fact, this can be a recipe for dullness. Every word and phrase offers dozens of possibilities; the pace and rhythm of every scene, let alone the whole play, requires the most careful judgment. But it is true that decisions can be made in such a way as to produce the effect of transparency.

Michael Attenborough is one of those directors who seem to get themselves out of the way. There are no great conceptual signposts in this production. A high-backed chair stands in the middle of a bare stage, and depending on who's sitting on it we are either at court or in Eastcheap. Its duality instantly establishes the play's underlying dynamic between authority and anarchy. Henry IV no sooner gets up at the end of the first scene, than for the second scene, up flies the silver cloth covering the chair, out crawls Prince Hal from under the seat, and the great hulk of Falstaff's sleeping body rises through a concealed trap in the floor. Simple. And this is the nearest the production comes to open directorial intervention.

There are, of course, other interventions, but nothing distracting or pedagogical. Take, for example, the opening of the second part, when Rumour's speech, here distributed among several disembodied voices, spreads false news of Hotspur's victory at the Battle of Shrewsbury. As we listen, we watch Hotspur's father, old Northumberland (Christopher Saul), sitting in the half-light, bowed and still. Then, just as a voice describes the news reaching "this worm-eaten hold of ragged stone/Where Hotspur's father lies crafty-sick", we see the old man suddenly rouse himself, lift his head and cock an ear. Such touches can make an emotional point with extraordinary economy. It is characteristic, for example, that where there is music, it is not so much the sound as the cessation of sound that underlines the climactic moments. It happens when Hotspur dies, as though something had been switched off; it happens as the prince, leaving the tavern to join his father, bids "Falstaff, goodnight"—and you suddenly realise that it's their last moment of intimacy; and it happens again, shockingly, when Hal rejects his friend finally on "I know thee not, old man".

The difficulty always with these plays is that Hal is, and must be, cold and calculating. He makes it clear in a soliloquy at the very beginning that he's only fooling around with Falstaff and the others in order to "show more goodly and attract more eyes" when the moment comes to take power. And yet if you don't believe that Falstaff means more to him than that, the tension between the play's opposing forces—always at its tautest in Hal—instantly sags. Much depends therefore on the early tavern scenes, and this production judges it beautifully. Falstaff grows bitter in time just as Hal grows formal, but here they are allowed to be delighted with each other and themselves. William Houston's nervy, twitchy, muscular young prince is repeatedly hugged and rocked and cradled by Desmond Barrit's Falstaff, and his sneaky literal-mindedness drowned in amazed admiration at the old man's outrageous improvisations.

And again, it is finely judged that Barrit's warmth and physicality should not be set off by cold austerity in "Henry IV"—as sometimes happens—but by an equal, if tightly constrained version of the same thing. David Troughton's old king is one of the triumphs of this production, his whole voice and body possessed by his predicament, by a kind of palpable guilt. His first scene with Hal, in which the prince promises to reform, closes with the king arresting an impulse to embrace him. Skewed and embarrassed as he is, all he can manage is a couple of taps on the shoulder with a clenched fist.

It speaks volumes, as does their final scene when they sit on the floor at the foot of the king's bed—comfortable at last in a way that subtly recalls Hal and Falstaff—the dying king advising his son to end civil dissension by busying "giddy minds/With foreign quarrels". After which, the promise of Agincourt to come seems suddenly less glorious.

Productions continue until May 26th. For schedule and tickets, see www.rsc.org.uk

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Playing with politics

Mar 15th 2001
From The Economist print edition

BACK in the 16th century, political plays were all about men. Not now. For some time, American female playwrights have followed the model of Wendy Wasserstein, a 50-year-old Brooklyn-born dramatist, whose work has focused on family drama and personal relationships. Overtly political plays were considered outdated and unfashionable. But this is no longer so often the case.

Hits and misses

Play	Playwright	The issues	The critics
The Syringa Tree	Pamela Gien	Apartheid	Slow build to rave reviews
Boy Gets Girl	Rebecca Gilman	Stalking	Polarised on play, lauded for performances
Force Continuum	Kia Corthron	Race and the law	Mixed on play and performances
Dogeaters	Jessica Hagedorn	Political corruption	Positive elements, overall confusion
Urban Zulu Mambo	Regina Taylor, Kia Corthron, Suzan-Lori Parks, Ntozake Shange	Black female identity, homelessness	Performances alone praised
The "A" Word	Latife Mardin	Abortion	Largely hostile

Descriptions by *The Economist*

A new generation of female playwrights is tackling such subjects as racism, rape and apartheid. The quality of these plays has varied widely. The best treat their subjects with nuance and subtlety, while it is the more polemical productions that fall flat. With topical issues now the stuff of shallow, made-for-television movies, audiences are looking to the theatre for something more substantial.

Rebecca Gilman's previous play, "Spinning into Butter", dealt with white racism in academia; her current drama, "Boy Gets Girl", gives a feminist take on male stalking and objectification of women. Kia Corthron has three plays, including "Force Continuum", dealing with racial issues on or coming to the New York stage this year. But perhaps the most notable recent play on political themes to date is "The Syringa Tree", a one-woman show about apartheid in South Africa in the 1960s, written and performed by Pamela Gien. Though the play had trouble finding an audience when it opened in September last year, critical acclaim and persistent word-of-mouth followed, gradually helping to make "The Syringa Tree" one of the city's most popular offerings.

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English authors

Auden's passion

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From The Economist print edition

ONE September day in 1943, the *New York Times* published an enticing announcement: W.H. Auden, celebrated "poet and social critic", would be giving a series of lectures on Shakespeare at the New School for Social Research in Greenwich Village. Auden had taken citizenship and lived in America for seven years. He was also, at 39, an experienced teacher. Shakespeare was an abiding passion, a poet to whom he returned again and again in his own poetry and prose. "The Sea and the Mirror", for instance, Auden's best long poem, is a kind of fanciful commentary on "The Tempest", Shakespeare's last great work.

LECTURES ON SHAKESPEARE
Edited by W.H. Auden.
Edited by Arthur Kirsch

Faber and Faber; £30
Princeton University Press; 452 pages; $29.95.

Buy it at
Amazon.com
Amazon.co.uk
Amazon.com
Amazon.co.uk

But anyone who arrived for the lectures—and Auden generally gave them to capacity crowds of up to 300 people—expecting orthodox expositions of Shakespeare's language and themes must have been surprised. For Auden was no ordinary lecturer, as this collection shows.

The lectures have been painstakingly reconstructed from the copious notes made by students (especially those of Alan Ansen, his friend and future secretary) in the audience. He was at the time much taken with the Christian existentialism of Soren Kierkegaard, and he read Shakespeare's plays in terms of Christian psychology. For Auden the great tragic heroes are the sinners of the world; the comedies represent a movement towards a redeemed community. Auden tackles almost all the plays chronologically, with the exception of "Titus Andronicus" and "The Merry Wives of Windsor". The former, in his opinion, didn't merit inclusion at all, and for the latter he substituted a recording of Verdi's "Falstaff" (all 18 sides of it), arguing puckishly that it was the play's only virtue to have provided an occasion for a great operatic masterpiece.

Auden regarded criticism as "live conversation". His lectures on Shakespeare are casually conversational throughout, and much less polished than his published prose. Alive with his magpie-like intelligence, punctuated by humorous asides and digressive interludes, they are as much a running commentary on the practices and preoccupations of a poet at the height of his own creative powers as they are an exposition of the works of another.

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New fiction from Russia

Speech therapy

Mar 15th 2001
From The Economist print edition

KYS.
By Tatyana Tolstaya.
Podkova Inostranka; 380 pages; 48 roubles

VZYATIE IZMAILA.
By Mikhail Shishkin.
Vagrius; 392 pages; 92 roubles

ALTYN-TOLOBAS.
By Boris Akunin.
Neva; 412 pages; 53 roubles

IN THE opening scene of Andrei Tarkovsky's 1974 classic film, "Mirror", a youth stands before a speech therapist who is trying to help him overcome his stammer and teach him to speak freely. Contemporary Russian fiction is like Mr Tarkovsky's youth, trying to get rid of an impediment inflicted by the collapse of the Soviet state.

Russian may be the only language which has been mutilated twice over the past 100 years: first by the Communist Party which, with the help of many talented writers and poets, created a new Soviet jargon, and secondly by the collapse of the Soviet Union which left the nation without such a unifying language or identity. The language gaps were filled with mockery, scorn and tireless playing with Soviet clichés. But ten years of ridicule left readers and writers longing for a language that was capable of expressing more serious feeling and experiences. It is this search for a new language that has become both the subject and the object of modern Russian fiction.

Tatyana Tolstaya, a short-story writer who spends much time in America, conceived her anti-Utopian debut novel, "Kys" in 1986, the year of the Chernobyl disaster and the beginning of *perestroika*. She completed it in 2000, the last year of Boris Yeltsin's rule. By naming each chapter after the letters of the old Russian alphabet, she suggests that it is nothing less than an encyclopedia of Russian life, a pretentious claim.

Written in a rich, ornate language, it describes a mutant, deformed world, once known as Moscow, several hundred years after an allegorical Explosion (with a capital E). Everyone who lives here bears its Consequences (with a capital C). Some have gills instead of lungs, or claws instead of nails and some "don't have any Consequences—only pustules coming out of their eyes in old age, or a beard growing from private parts, or nostrils popping up on their knees." They eat mice, drink rust and copy out books which they cannot understand. Ms Tolstaya savours the words and images which make up this disfigured, though strangely cosy world. Yet despite its ornate language and ambitious claims, the novel remains as monotonous as the world it describes, in part because there is nowhere for it to go.

Language is also the main theme of Mikhail Shishkin's "Vzyatie Izmaila" (The taking of Ismail), which won last year's Russian Booker prize. The book has no plot, no chapters and no character that is sustained through the novel. It is held together by a conflict of styles, languages and literary traditions rather than the interaction of characters. The narrative, if it can be called that, moves between a pre-revolutionary courtroom, Stalin's Russia, and modern-day Moscow. Latin phrases, church Slavonic, Chekhovian language, modern obscenities, forensic documents, and endless literary quotations are all elements of Mr Shishkin's linguistic universe.

Within these crisscross streams of consciousness are a series of eloquent and gripping novellas. The novel ends with a disarmingly sincere autobiographical epilogue in which the author, woken from a dream about his ugly Soviet childhood by a ticket collector on a train in Switzerland, is left wondering: "Where am I?"

Of these three writers Boris Akunin, a bestselling detective writer, has the fewest literary pretentions, which may be because he does not exist. Mr Akunin is the creation of a scholar and translator of Japanese literature, Grigory Chkhartishvili, who is also the author of a serious academic work, “The Writer and Suicide”.

Mr Akunin has conquered Russia’s reading classes with elegant detective stories set in the 1870s-1890s—the time which saw the birth of Russia’s capitalism. His main character, Erast Fandorin, a literary relative of Chesterton’s Father Brown, is a charismatic civil servant with a slight stammer, who specialises in uncovering elaborate crimes. Fluent in English, lucky but not a gambler, gallant yet restrained, possessing a sense of honour alien to many of his countrymen, Fandorin is the personification of a national dream of an ideal European—the perfect Russian gentleman.

Mr Chkhartishvili does not preach or even claim to write serious literature. He believes his books simply fill the gap between high-brow literature and pulp fiction. His is the first attempt to create good commercial literature for Russia’s growing middle class. But writing in a stylised language of Dostoevsky’s 1870s, he also tries to bridge two eras of Russian literature leaving out 70 years of Soviet tradition.

In “Altyn-Tolobas”, Fandorin’s grandson, Nicholas, by now an Englishman, returns to Moscow looking for the traces of the founder of the Fandorins. The action moves between the 17th-century Russian court and the Moscow of today, showing how little Russian ways have really changed over the past three centuries—other than the language. Brought up on classical Russian literature, Nicholas speaks a refined Russian unspoilt by the 70 years of Soviet rule or the ten years since its collapse, which makes him a linguistic foreigner in the land of his forefathers.

Mr Chkhartishvili believes in the magical power of language: “call something a different name, and it will change its substance”. If he is right, bringing Mr Akunin and his character into modern Russian literature may help it overcome its stammer.

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Business and the Nazis

Trading with evil

Mar 15th 2001
From The Economist print edition

UNDERSTATED histories are often more powerful than sensationalist ones. Two of these three books are matter-of-fact accounts of business dealings with the Nazis. Yet the mundane motives that they find many people had for collaborating with an evil regime leave you more shaken than Edwin Black's melodramatic exposure of IBM's alleged involvement in the Holocaust. By representing the IBMers as blinkered technocrats and wicked capitalists obsessed with profits, he dehumanises them.

Harold James's and Neil Forbes's histories are more persuasive. Both authors are aware that managers in a large business hierarchy are not exclusively intent on maximising profits; the prospect of promotion or corporate empire-building can be a more compelling incentive.

Mr James is one of five historians who in 1998 were invited by Deutsche Bank to examine the bank's behaviour during the Nazi era and to write an "uncontrolled, uncensored and unexpurgated" account of it. Concentrating on the so-called aryanisation policy, he finds that Deutsche Bank's profits from transactions involving seized Jewish businesses and property were neither extravagant nor excessive. The Hitler regime's prejudice against money-lending, which it regarded as an inherently Jewish activity, caused it strictly to limit the gains made by commercial banks from its policy of aryanisation.

But the slimness of its profits, Mr James contends, did not mitigate Deutsche Bank's actions. Choosing his words with care, he says: "It might be argued that transactions that fundamentally undermined trust in contracts, and that extended the arbitrary and capricious exercise of power, are discreditable enough by themselves—but even more discreditable when they cannot be legitimated in terms of the traditional logic of business decisions."

The bank's junior employees often behaved worse than their seniors. Top executives tended, initially at least, to be more worried about the loss of business resulting from aryanisation than enthralled by the prospect of profiting from it. Some also had close personal as well as business links with the victims of aryanisation and tried as best as they safely could to protect their Jewish associates' interests.

Ambitious bank employees had no such inhibitions. Any scruples they had about the policy were overcome by their desire to step into the jobs of purged Jews in acquired "Jewish banks" and in Deutsche Bank itself. Bankers elsewhere behaved just as badly. Mr James says he found nothing in any German files to match "the rancour of the post-Munich (September 1938) submissions of Czech bank employees' associations, which demanded the closure of Jewish banks and the sacking of Jewish employees."

IBM AND THE HOLOCAUST: THE STRATEGIC ALLIANCE BETWEEN NAZI GERMANY AND AMERICA'S MOST POWERFUL CORPORATION
By Edwin Black

Crown; 416 pages; $27.50.
Little, Brown; £20.

Buy it at
Amazon.com
Amazon.co.uk

DEUTSCHE BANK AND THE NAZI ECONOMIC WAR AGAINST THE JEWS
By Harold James

Cambridge University Press; 224 pages; $24.95 and £22.95.

Buy it at
Amazon.com
Amazon.co.uk

DOING BUSINESS WITH THE NAZIS: BRITAIN'S ECONOMIC AND FINANCIAL RELATIONS WITH GERMANY 1931–39
By Neil Forbes

Frank Cass; 280 pages; $59.50 and £42.50

Buy it at
Amazon.com
Amazon.co.uk

Mr Forbes looks not at a single company but at a whole country, and finds that Britain tried through most of the 1930s to conduct business as normally as possible with Germany. British businessmen and bankers argued, self-interestedly but also probably quite sincerely, that a fat Germany was in everyone's interest. Germany was, after India, Britain's best customer and a prosperous Germany would, they claimed, be good for British business and would enable supposed Nazi moderates to exercise a stabilising influence. In consequence, the German war machine continued to be fuelled with oil and armed with metals from British sources.

It sounds an entirely misguided policy until Mr Forbes begins to examine how the British war machine

would have suffered from German counter-sanctions. Britain imported German machinery for manufacturing shells and bombs. The Chamberlain government had learnt from its Industrial Intelligence Centre that these machine tools were not readily obtainable elsewhere and that their loss would seriously retard Britain's rearmament programme.

Such subtleties of argument and motive have no place in Mr Black's book, which alleges that without IBM's punch-card technology the Nazis could not have found, transported and killed 6m Jews. The charge is not sustained. Less precise genocide is not necessarily less bloody. It is hard to imagine Hitler's goons giving the benefit of the doubt to people they suspected of being Jews but who denied it. And, as Mr James shows, there was no shortage of ordinary people keen to benefit from the Jews' misfortune.

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How corporate bosses think

Conventionally

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THE idea is full of promise. Jeffrey Garten, dean of the Yale School of Management and a former undersecretary for international trade, sets out to chat one-to-one with 40 of the world's most distinguished chief executives. Among them are Jack Welch of GE, Jorma Ollila of Nokia, Andy Grove of Intel and Jürgen Schrempp of DaimlerChrysler, executives whose decisions touch the lives of millions. Based on his interviews, the dean then writes a book called "The Mind of the CEO".

The high promise, though, is unfulfilled. These men's (and two women's) minds appear disappointingly vague. They speak in the bland language of strategy. Their quotes are interchangeable. One of them says, "Consumers are going to want choices that make sense to them." Another says, "The next big evolutionary step of 'going global' now has to be 'going local'." If you think you've heard it all before it's because (unless management literature is entirely fresh to you) you have (see article).

The Mind of the CEO
By Jeffrey Garten

Basic Books; 320 pages; $26.
Allen Lane, The Penguin Press; £20

Buy it at
Amazon.com
Amazon.co.uk
Amazon.com
Amazon.co.uk
Amazon.co.uk

There may, however, be a deeper truth here. Perhaps the mind of the CEO today is so conditioned not to say anything that might inadvertently move a market (or break some regulators' rules) that it reverts to the safety of stale regurgitation. Mr Garten might have expected interesting answers. For instance, he asked every interviewee, "What most keeps you awake at night?" Instead of replying, "Fear of failure" or "That bloody analyst at Salomon Brothers", the majority of responses, apparently, "reflected a fear of a major disruption—rarely precisely defined—in the process of globalisation." Surely these men are made of sterner stuff.

An inquisitive journalist or a close observer of human nature might have extracted more. The reader cannot help but rue the lost opportunities. Mr Garten interviews Douglas Daft, the man who sorted out Coca-Cola after its famously botched choice of successor to an earlier CEO who died prematurely. Mr Daft is not asked about what Coca-Cola has done to ensure that a CEO's premature death never again leads to such disaster. Instead, Mr Daft's most vivid insight is that Coke "must remember we do not do business in markets; we do business in societies."

Therein lies a hint as to what this book is really about. For it soon becomes apparent that Mr Garten's real aim is not to get inside the minds of his CEOs, but to plead for them to take a more "proactive stance" on the world stage. "CEOs", he says, "ought to be out front in proposing ways to shore up social safety nets around the globe." The book is less about what is actually in the minds of CEOs, and more about what Mr Garten believes ought to be there.

Among the book's most quoted bosses are William Clay Ford of the car company and Roger Enrico of PepsiCo. And not without reason. For they say things like (in Mr Enrico's case): "We have to care about the distribution of wealth because the fact of the matter is if there's a shrinking middle class, that's not a good thing." And in the case of Mr Ford: "Consumers want a safer, cleaner, more equitable world, and they'll buy from companies that display those CHARACTERISTICS." These men have moved closer than others to that broader stage that Mr Garten believes they ought to occupy.

But how realistic is it to expect them to go that far? Mr Ford's remarks were made before Ford acknowledged that some Firestone tyres on its vehicles were blowing out and killing people. That compelled Mr Ford to face the fact that consumers want companies above all to make their products safe. Only then (if ever) do they want them to be bothered with the safety of the rest of the planet.

Among other things, Mr Garten would like American companies to promote American culture abroad. The invisible hand of Adam Smith, he claims, will not "carry the American message—beyond its pop incarnation—to the poorer regions of the world." The experiences abroad of McDonald's, Nike and Coke suggest overwhelmingly, however, that CEOs who want to maximise their companies' value will be well advised to minimise their cultural promotion and focus solely on the qualities of their products. Mr Garten

is oddly insistent, despite this, that American CEOs should pursue a broader agenda on the global stage even if they are regarded in some quarters as imperialists.

The best quote in this book comes not from one of the 40 interviewees but from Ralph Waldo Emerson. “An institution”, Emerson once said, “is the lengthened shadow of one man.” The shadows in this book are far too faint to withstand much lengthening.

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Thalidomide

Good stuff

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IN THE 1950s, scientists at Chemie Grunenthal, a German drug company, developed thalidomide in a search for a simpler way to make antibiotics. But thalidomide did not kill bacteria; in fact, it failed to kill anything at all, even at massive doses. Instead, in an effort to cash in on the post-war boom in sedatives, the company introduced the drug as a reliable alternative to barbiturates. By the 1960s thalidomide was on sale in 46 countries, from Europe to Australia, often as an over-the-counter remedy as accessible as aspirin.

DARK REMEDY: THE IMPACT OF THALIDOMIDE AND ITS REVIVAL AS A VITAL MEDICINE
By Rock Brynner and Trent Stephens

Perseus Publishing; 240 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

But Grunenthal was stronger on commercial chutzpah than scientific rigour. It failed to perform key tests on experimental animals, or on small groups of people in clinical trials, before launching the pills on an unsuspecting public. Critically, it neglected to check whether thalidomide affected pregnant women, assuming that its molecules could not cross the placenta from mother to child. Company executives then compounded incompetence with deceit. They refused to accept mounting evidence that thalidomide was responsible for a sudden outbreak of a rare birth defect called phocomelia, in which children are born with severely deformed internal organs or limbs. They doggedly refused to pull the drug from the market until forced to do so by critical press reports. They resisted claims for compensation from its victims and refused to admit responsibility, even when the drug was condemned in court.

The story of thalidomide is a sorry tale of corporate greed, institutional inadequacy, unnecessary suffering and cruel irony. Thalidomide had been widely touted as a safe medicine for expectant mothers. And, despite its awful reputation, it is just that—except for a brief spell between the 20th and 36th day after conception, when this “chemical shrapnel”, as the authors call it, does terrible damage to a fetus. Many of the women caught in this pharmacological blast did not even realise they were pregnant when they took the medicine.

But Trent Stephens’s and Rock Brynner’s story is also an account of ingenuity, persistence and personal bravery. The work of doctors in Germany, Australia and elsewhere to piece together the epidemic in an age before the Internet and instant communication, was remarkable. Equally impressive was the refusal of Frances Kelsey, who was responsible for vetting thalidomide at America’s Food and Drug Administration, to bend to corporate pressure and approve the drug for general use. Although 2 1/2m tablets of thalidomide had already been dispensed in America, her resistance stopped a crisis from turning into a catastrophe. And finally, there is the courage of the 5,000 surviving children who have struggled with tremendous physical and emotional handicaps.

The little-known sequel is almost as remarkable. Thalidomide has outgrown its destructive early days to become a useful weapon in the fight against almost 130 diseases. In the mid-1960s, an Israeli doctor discovered that it worked miracles on patients suffering a particularly gruesome complication of leprosy, completely clearing the large, painful boils which covered their bodies. Thirty years later, thalidomide emerged as a potential treatment for Kaposi’s sarcoma, a rare skin cancer whose purple blotches are the bane of many HIV patients. It has also improved the lot of those afflicted with multiple myeloma, another cancer, and a variety of autoimmune disorders including lupus.

Thalidomide works, in part, by blocking the production of tumour necrosis factor-alpha, a biochemical which promotes inflammation in the body. Scientists are also closing in on how the drug causes damage in pregnancy, which is aiding drug makers in developing new, safer derivatives. Thalidomide has indeed been reborn. But every dose, delivered in America, comes with a stern warning of its potential side-effects. While its future may be bright, thalidomide’s past is too awful to repeat.

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Russia's disputed transition

No other way

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CONCLUDING their vast philippic against free-market reforms in Russia, Peter Reddaway and Dmitri Glinski ask, in the words of an early 20th-century poet, Maximilian Voloshin, whether it

> Might be our destiny to live out
> Europe's latest dream
> So that we can divert it
> From its perilous paths?

Their answer is yes. Russia in the 20th century, they say, has shown the outside world "the dehumanising extremes of two different Utopian visions based on economic determinism and designed for global use." The first was bureaucratic state bolshevism, comprising a command economy and one-party rule; the second is "market bolshevism", which, in their view, has destroyed Russia's industrial base (built at great sacrifice over decades), triggered alarming demographic trends and created a risk of "irreversible criminalisation and privatisation of the Russian state".

THE TRAGEDY OF RUSSIA'S REFORMS: MARKET BOLSHEVISM AGAINST DEMOCRACY
By Dmitri Glinski and Peter Reddaway

United States Institute of Peace Press; 766 pages; $55 ($29.95 paperback). Distributed in Britain by Plymbridge; £21.50

Buy it at
Amazon.com
Amazon.co.uk

This book is the latest, and weightiest, contribution to a burgeoning literature of blame from America. It follows Janine Wedel's "Collision and Collusion" (1998), Stephen Cohen's "Failed Crusade" (2000) and numerous essays, the most powerful of which came in 1999 from Joseph Stiglitz, then chief economist of the World Bank, who argued that what the reformers had done was to create "incentives for asset stripping", not for productive capitalism. The outrage of this school over the imposition of a shock therapy perceived as cruelly inappropriate is so pronounced that many of its members have no hesitation in coupling reforms aimed at democratising and marketising Russia as equivalent in their evil effects to the imposition and rule of communism on the Soviet Union.

The volume is a detailed, sometimes day-by-day chronicle, which Mr Glinski's active acquaintance with the democratic movement of the 1980s and 1990s does much to enrich. Part of Mr Reddaway's hatred of what he sees as the rape of Russia is that it has been perpetrated or encouraged by foreign economists who knew nothing of its history, customs and people—he is steeped in all of these—but who had instead had an off-the-shelf, one-size-fits-all, free-market nostrum for its transformation.

There is much, as Mr Stiglitz demonstrated, that can be and is being said by way of criticism of the management, timing and consistency of the reform. Above all—it is a major strand of the critique by Messrs Reddaway and Glinski—the Clinton administration micromanaged its Russian counterpart in an ultimately self-defeating way, dizzy as the former was with the heady effect of pulling strings in the government of a superpower which had been a global adversary for three generations.

But the great flaw of all such criticisms is their lack of engagement with the real nature of the Soviet collapse. The way in which communism ended left the country without an economic system, without a solid base for power and without a civil society. It might in theory have been better to adopt a Chinese model of party-led economic liberalisation. But that chance had gone by 1988 at the latest, as the general secretary of the Communist Party, Mikhail Gorbachev, set about destroying this one network of power.

Again, it might have been better had Russia opted for a hell-for-leather liberalisation after 1991 instead of the muddled and corrupt compromises which in fact transpired. But the power of the various industrial, political and criminal lobbies was too great. Any third alternative, including what Messrs Reddaway and Glinski take to be missed opportunities for a democratically controlled economic transformation, would have had to confront the same intractable fact that the purpose of the old system had comprehensively vanished and with it the collective will for change. That Russia has failed to

transform itself into a stable and democratic market economy is already clear. That this failure is dangerous is becoming plainer. That there was another way which the professors knew of and no one else could see is, as the Scottish judgment goes, not proven.

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Ninette de Valois

Mar 15th 2001
From The Economist print edition

Ninette de Valois, mistress of the ballet, died on March 8th, aged 102

Hulton Getty

WHEN Edris Stannus, an Irish dancer, was quite young she changed her name. The *Dancing Times* of January 1917 has her on its front cover as "Ninette de Valois", the principal dancer in "Mother Goose", a pantomime for the Christmas season in London. At the age of 18 the strengths that were to shape her formidable career were already noticeably present. She had quickly recognised that a name linking her to France, with its long tradition of ballet dancing, was more appealing to an audience than an English, or indeed an Irish, one. It is unclear why she chose such a fanciful name, with its hint of French aristocracy. There is nothing about her choice in her entertaining autobiography, "Come Dance With Me". But behind her imperious manner lurked a droll sense of humour. If the English could be so taken in by a French pose, that showed how daft they could be.

She also knew that a dancer's career, like an athlete's, was insecure and short. An advertisement in the same issue of the magazine offered lessons by the "*première danseuse*" to "a limited number of pupils". That humble ad produced few replies. But teaching was in her blood, and later she was to teach the English how to produce world-class dancers, to give them security, and in the process make English ballet an important part of Britain's vast and successful culture industry.

The nation was grateful. She was eventually appointed a dame, the female equivalent of a knight, and received the rarer honours of Order of Merit and Companion of Honour. Dame Ninette would sometimes become bored with overpraise, and would insist that building a ballet company was a team effort. Of course it was. But she also knew that, without her, in the temperamental and jealous world of dancing the team would have come apart, if indeed it ever got going. She was special.

The young swan

"Mother Goose" was, in its way, one high point in her career. She had started out as a professional dancer at the age of 14 in a group called "The Wonder Children". Her speciality was enacting "The Dying Swan", in the style of Anna Pavlova, the greatest ballerina of her time. Every day she performed she made ten solo appearances. "I think that I can boast of having danced on every old pier theatre in England," she said.

But in the 1920s there was some real ballet in Britain, rather than novelty turns. It was principally provided by visiting companies from continental Europe. The best known, the Ballets Russes, was run by Sergei Diaghilev, a Russian based in Paris. Its innovative productions had music by Stravinsky and sets by Picasso. The young Ninette (or Edris) took lessons in classical dance and was with the Diaghilev company for two years, taking demanding solo parts despite recurring pain from polio she had contracted as a child. When she left in 1925 she resolved "with passionate feeling" that England should have a similar company offering "the dignity of the dance in the theatre as an art form".

She set out to create a ballet company and a school to provide its dancers. Her first establishment was proudly called the Academy of Choreographic Art. She had few material resources but many friends who happily yielded to her persuasive ways. Maynard Keynes, whose wife Lydia was a dancer, was persuaded to divert his attention from Britain's economic problems to help raise money. On at least one occasion Keynes got economists who were attending a conference in London to pay for a performance by Ninette's dancers. Her personal wellbeing was secure: she was married to a doctor who practised in Barnes, a London suburb.

Along with much of British culture, ballet prospered in the second world war and in the early post-war years. Laurence Olivier was emerging as the greatest of Shakespearean players. British films were judged to be the best in the world. Orwell, Priestley and Waugh gave stature to popular reading. There were packed houses for Dame Ninette's productions, some of them choreographed by herself and with home-grown stars such as Margot Fonteyn. Many of her ballets were imaginatively exciting, not just pretty girls and sugary music.

Royalty likes to be associated with success, and her company had become the Royal Ballet and her school the Royal Ballet School. Much of the culture was subsidised by the state, as it is now, and no one seemed to mind. Culture was something the British had done well, like fighting the war. And in any case it attracted the tourist millions, and had kudos as an export. Australia, New Zealand and South Africa are among the countries that have ballet companies that owe something to encouragement from Dame Ninette. She established a national ballet in Turkey, remarking that it was the first in mainland Europe to have English foundations. "Everyone knows that if you want to see really beautiful footwork, go to England," she said.

She formally retired as head of the Royal Ballet when she was 65, which was probably too early. During her next 37 years she wrote poems. A line in one is, "Don't fade too soon."

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OUTPUT, DEMAND AND JOBS

Mar 15th 2001
From The Economist print edition

Japan's fourth quarter GDP grew by 0.8%, taking the year-on-year growth up to 2.8%. Growth in Sweden's GDP slowed to 2.6% in the year to the fourth quarter. Germany's industrial production rose by 0.9% in January and was 6.6% higher than a year ago. The number of unemployed in Britain fell to below 1m for the first time since 1975.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2001	2002	3 mths†	1 year	1 year	latest	year ago
Australia	– 2.2	+ 2.1 Q4	+ 3.0	+ 4.0	– 1.5	+ 4.2 Q3	– 0.1 Q4	6.9 Feb	6.7
Austria	+ 1.2	+ 1.9 Q3	+ 2.4	+ 2.7	na	+ 2.2 Nov*	+ 1.1 Nov	3.7 Jan	3.7
Belgium	+ 4.9	+ 3.1 Q4	+ 2.7	+ 2.8	na	+ 6.7 Jan*	+ 6.4 Nov	10.7 Jan*	11.3
Britain	+ 1.0	+ 2.4 Q4	+ 2.5	+ 2.8	– 2.0	+ 1.1 Jan	+ 5.8 Feb	5.2 Jan‡	5.9
Canada	+ 2.6	+ 4.0 Q4	+ 2.6	+ 3.5	+ 1.8	+ 3.2 Dec	+ 3.9 Dec	6.9 Feb	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.0	+ 2.2	na	+ 4.3 Jan	– 1.0 Dec	5.3 Jan	5.4
France	+ 3.9	+ 2.8 Q4	+ 2.6	+ 2.9	+ 2.3	+ 2.9 Dec	+ 1.4 Jan	9.0 Jan	10.5
Germany	+ 0.8	+ 1.9 Q4	+ 2.4	+ 2.8	+ 2.9	+ 6.6 Jan	+ 4.8 Jan	9.3 Feb	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.2	+ 2.6	+ 6.8	+ 9.6 Jan	– 1.4 Dec	10.0 Oct	11.1
Japan	+ 3.2	+ 2.8 Q4	+ 1.1	+ 1.7	– 4.4	+ 1.9 Jan	+ 1.8 Jan	4.9 Jan	4.7
Netherlands	+ 5.1	+ 3.1 Q4	+ 3.1	+ 3.3	+ 8.5	+ 9.4 Dec	+ 2.9 Nov	2.6 Jan§	2.7
Spain	+ 2.9	+ 3.7 Q4	+ 3.1	+ 3.5	+ 0.1	+ 4.4 Dec	na	13.7 Dec	15.1
Sweden	+ 2.4	+ 2.6 Q4	+ 3.1	+ 3.3	na	+10.1 Dec	+ 3.7 Dec	4.4 Jan*	5.7
Switzerland	+ 1.8	+ 2.5 Q4	+ 2.2	+ 2.4	na	+ 6.9 Q3*	– 2.0 Dec	1.9 Feb*	2.4
United States	+ 1.1	+ 3.4 Q4	+ 1.6	+ 3.4	– 3.2	+ 2.4 Jan	+ 2.6 Dec	4.2 Feb	4.1
Euro area	+ 2.8	+ 3.0 Q4	+ 2.5	+ 2.9	+ 7.5	+ 8.0 Dec	+ 1.7 Dec	8.8 Jan	9.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 3.0	+ 5.5 Q4	na	na	+17.2	+ 7.0 Dec	+ 3.6 Nov	9.9 Jan*	10.6
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Dec	1.7
Ireland	+21.5	+12.2 Q2	na	na	na	+32.2 Jan	+ 9.7 Nov	3.6 Feb	4.5
Luxembourg	na	+ 7.5 1999	na	na	na	+ 1.2 Nov*	+15.8 Sep	2.6 Dec	2.9
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+11.5 Q3*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 3.5	– 0.3 Jan	+ 0.7 Dec	3.1 Q4	3.2
Portugal	+ 0.8	+ 2.6 Q2	na	na	na	+ 6.2 Dec*	+ 3.1 Dec	3.8 Q4	4.1

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Nov-Jan; claimant count rate 3.4% in February. §Nov-Jan.

Text refers only to the first 16 countries listed

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COMMODITY PRICE INDEX

Mar 15th 2001
From The Economist print edition

India, the world's biggest producer, is exporting sugar this season for the first time since 1996-97. Its refined sugar production in the year ending last September was 18.2m tonnes—a record, and 17% higher than in 1998-99. The country now faces serious storage problems, and mills must trim a stockpile of 10m tonnes ahead of another bumper crop. India has exported 700,000 tonnes of sugar since last August, about half of that to Pakistan. But despite a shortfall of 1m tonnes this season, Pakistan has reimposed a ban on imports of refined sugar from India. India's exporters must now look further afield. Making profits will be hard: world prices are lower than India's domestic price, and the domestic market is subject to monthly release quotas.

1995=100	Mar 6th	Mar 13th*	% change on one month	% change on one year
Dollar index				
All items	71.8	70.9	– 0.5	– 5.4
Food	71.4	70.5	+ 0.8	– 2.3
Industrials				
All	72.4	71.3	– 2.1	– 9.3
Nfa†	64.6	65.6	+ 0.9	– 11.3
Metals	79.1	76.2	– 4.2	– 7.8
Sterling index				
All items	77.2	77.0	– 0.5	+ 2.3
Food	76.7	76.6	+ 0.7	+ 5.7
Industrials	77.9	77.5	– 2.2	– 2.0
Euro index				
All items	101.5	101.6	– 0.0	– 0.7
Food	100.9	101.1	+ 1.2	+ 2.6
Industrials	102.4	102.3	– 1.7	– 4.8
Yen index				
All items	90.9	90.6	+ 1.8	+ 8.2
Food	90.3	90.1	+ 3.1	+ 11.8
Industrials	91.7	91.2	+ 0.1	+ 3.7
Gold				
$ per oz	260.80	268.75	+ 2.9	– 7.1
Crude oil North Sea Brent				
$ per barrel	26.60	25.68	– 8.6	– 9.8
West Texas Intermediate				
$ per barrel	28.49	27.40	– 9.0	– 13.9

* Provisional. † Non-food agriculturals.

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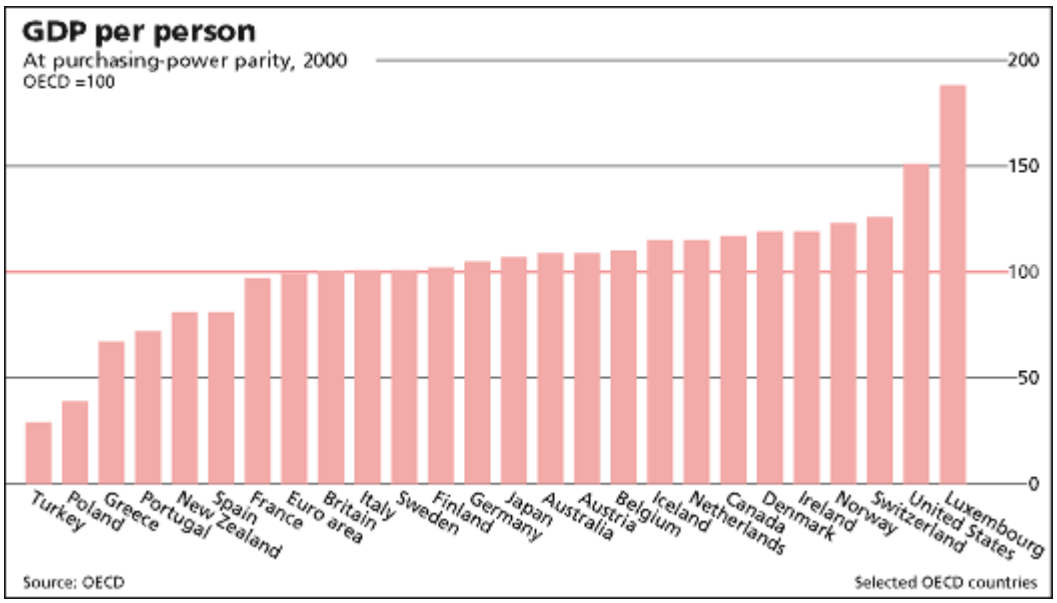
LIVING STANDARDS

Mar 15th 2001
From The Economist print edition

Tiny Luxembourg heads the table of GDP per head among OECD countries, and Turkey brings up the rear. The Irish Republic ranks fifth, up from 19th in 1996, a tribute to the success of the Celtic tiger. Living standards in Britain are just higher than in the euro area. The OECD's ranking uses purchasing-power-parity exchange rates to convert GDP into a common currency. PPP exchange rates, which equalise the cost of buying a common basket of goods and services across countries, avoid the distorting effects of short-term fluctuations in the market values of currencies. They therefore produce a more accurate comparison of living standards than market exchange rates. PPP rates also take into account non-tradable services that are relatively cheap in poorer countries.



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PRICES AND WAGES

Mar 15th 2001
From The Economist print edition

French annual consumer-price inflation rose to 1.4% in February, while Spain's increased to 3.8% and the Dutch rate climbed to 4.5%. Britain's producer prices rose by 1.6%, the lowest since August 1999, in the year to February. American workers received a pay rise of 4.1% in the year to February, a real rise of only 0.4%.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2001	2002	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 3.9	+ 3.0	+10.2	+ 8.4 Q4	– 3.3	+ 5.0 Q4
Austria	na	+ 2.8 Jan	+ 1.7	+ 1.7	– 1.1	+ 2.6 Feb	+ 1.9	+ 2.2 Dec
Belgium	– 0.2	+ 2.3 Feb	+ 2.0	+ 1.9	+ 9.0	+ 7.1 Dec	+ 3.7	+ 1.6 Q4
Britain	+ 1.3	+ 2.7 Jan	+ 2.2	+ 2.5	– 1.5	+ 1.6 Feb	+ 7.5	+ 4.4 Jan
Canada	+ 0.3	+ 3.0 Jan	+ 2.4	+ 2.2	+ 2.4	+ 3.1 Jan	– 3.0	+ 1.7 Dec
Denmark	+ 0.5	+ 2.4 Feb	+ 2.3	+ 2.3	– 1.0	+ 4.1 Jan	+ 7.0	+ 3.8 Q3
France	– 0.5	+ 1.4 Feb	+ 1.4	+ 1.5	+ 0.5	+ 3.6 Jan	+ 4.6	+ 5.3 Q3
Germany	+ 2.8	+ 2.6 Feb	+ 1.7	+ 1.5	– 1.5	+ 3.7 Feb	na	+ 2.3 Dec*
Italy	+ 3.2	+ 3.0 Feb	+ 2.2	+ 2.0	+ 4.2	+ 5.4 Jan	+ 0.9	+ 1.7 Dec*
Japan	– 0.1	+ 0.1 Jan	– 0.4	– 0.3	+ 2.7	+ 0.1 Feb	na	– 0.3 Jan
Netherlands	+ 2.6	+ 4.5 Feb	+ 3.2	+ 2.3	+ 3.6	+ 6.8 Jan	+ 2.3	+ 2.9 Jan
Spain	+ 3.0	+ 3.8 Feb	+ 2.9	+ 2.7	+ 1.5	+ 3.9 Jan	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.6 Feb	+ 1.7	+ 1.7	+ 6.7	+ 3.7 Dec	+ 3.4	+ 2.4 Dec*
Switzerland	+ 0.4	+ 0.8 Feb	+ 1.4	+ 1.3	nil	+ 1.4 Jan	na	+ 0.2 1999
United States	+ 3.3	+ 3.7 Jan	+ 2.6	+ 2.3	+ 4.8	+ 4.8 Jan	+ 4.7	+ 4.1 Feb
Euro area	+ 1.9	+ 2.4 Jan	+ 1.9	+ 1.8	+ 2.6	+ 4.8 Jan	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.6	+ 3.1 Feb	na	na	– 1.1	+ 4.7 Jan	+ 3.0	+ 4.3 Q4*
Greece	+ 6.6	+ 3.4 Jan	na	na	+ 8.6	+ 6.7 Dec	na	na
Iceland	+ 2.3	+ 3.9 Mar	na	na	+ 2.8	+ 4.4 Jan	+ 6.2	+ 9.3 Jan
Ireland	+ 3.0	+ 5.2 Jan	na	na	– 0.2	+ 3.8 Jan	+17.5	+ 7.0 Q2*
Luxembourg	+ 5.6	+ 2.9 Jan	na	na	+ 0.3	+ 5.0 Nov	+ 7.7	+ 8.4 Oct*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+15.0	+10.2 Q4	+ 1.8	+ 1.6 Q4
Norway	+ 4.3	+ 3.6 Feb	na	na	na	+ 3.8 Feb	+ 2.9	+ 3.8 Q3*
Portugal	+ 5.3	+ 4.8 Feb	na	na	+ 4.3	+ 7.3 Jan	na	+ 3.0 Nov*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Mar 15th 2001
From The Economist print edition

Prices for America's 30-year Treasury bonds rose sharply as investors fled the fall-out in equity markets and sought safety in low-risk, fixed-income securities. The bonds' yields fell to 5.3%, a two-year low, on March 14th.

	Money supply*		Interest rates % p.a. (Mar 14th 2001)							
	% rise on year ago			3-mth money market				10-year gov't		
	narrow	broad	overnight	latest	year ago	banks prime	2-year gov't bonds	latest†	year ago	corporate bonds
Australia	+ 9.7	+ 5.8 Jan	5.50	5.10	5.80	8.50	4.46	4.99	6.53	6.32
Britain	+ 4.2	+ 9.4 Jan	4.69	5.44	6.13	6.75	5.02	4.67	5.28	6.19
Canada	+13.7	+ 7.9 Jan	4.93	4.62	5.13	6.75	4.62	5.26	6.08	6.95
Denmark	na	+ 1.8 Dec	4.95	5.27	4.25	8.00	4.81	4.94	5.56	7.10
Japan	+ 4.7	+ 2.7 Feb	0.13	0.14	0.05	1.50	0.12	1.15	1.82	1.34
Sweden	+ 2.4	+ 0.1 Jan	4.00	4.08	4.10	4.41	3.99	4.70	5.38	4.28
Switzerland	– 3.2	+ 0.4 Jan	3.40	3.43	2.60	5.50	3.24	3.28	3.79	4.11
United States	– 1.8	+ 9.5 Jan	5.50	4.84	6.00	8.50	4.32	4.84	6.28	6.92
Euro area‡	+ 1.4	+ 4.7 Jan	4.78	4.78	3.79	5.65	4.39	4.64	5.26	5.62

†France 4.79, Germany 4.64, Italy 5.15. Benchmarks: Japan No.229 1.15, US 30-yr 5.28. ‡Germany for prime and bonds.

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Gp, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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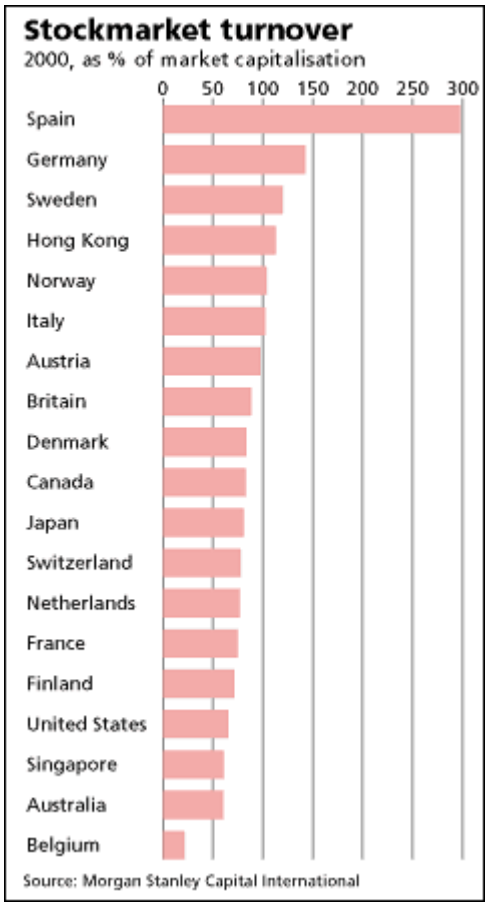
STOCKMARKET TURNOVER

Mar 15th 2001
From The Economist print edition

One guide to the liquidity of a stockmarket is how often the shares traded on it change hands. This can be crudely measured by the ratio of the value of shares traded to the market capitalisation of the listed firms. In 2000 Spain had by far the highest turnover of the countries in our chart. The ratio was close to 300%, which means each share changed hands about three times. Germany was second, with a ratio of 142%. America had turnover of only two-thirds of its massive market capitalisation, though nobody doubts that its markets are liquid. Not so Belgium, with a ratio of only 21%.



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TRADE, EXCHANGE RATES AND BUDGETS

Mar 15th 2001
From The Economist print edition

Japan's trade surplus fell to $5 billion in January, cutting the 12-month total to $111.5 billion. The current-account surplus dropped to $114 billion over the same period. Pessimism about the Australian economy has been growing; its dollar's value plunged below 50 American cents for the first time ever on March 14th. The trade-weighted value of the American dollar rose by 1%.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2001	2002	trade-weighted† Mar 14th	year ago	per $ Mar 14th	per $ year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	+ 0.04 Jan	– 4.3	– 15.1 Q4	-3.4	-3.6	69.2	78.5	1.96	1.63	2.87	1.82	1.64	0.9
Austria	– 0.77 Dec§	– 4.6	– 5.1 Dec	-2.4	-2.0	100.5	100.4	14.8	14.2	21.7	13.8	12.38	-1.6
Belgium	+ 0.71 Dec§	+ 13.5	+ 10.3 Sep	4.2	4.2	99.3	99.2	43.5	41.6	63.6	40.3	36.3	-0.1
Britain	– 4.10 Dec	– 42.9	– 16.3 Q3	-1.9	-1.6	105.0	107.5	0.68	0.64	–	0.63	0.57	2.7
Canada	+ 3.84 Dec	+ 36.6	+ 12.7 Q4	0.6	0.9	77.3	80.4	1.55	1.47	2.27	1.44	1.29	2.5
Denmark	+ 0.42 Jan	+ 5.0	+ 2.8 Jan	1.4	1.4	102.2	101.3	8.04	7.68	11.8	7.46	6.71	2.7
France	+ 0.28 Jan	+ 1.1	+ 25.6 Nov	1.9	1.9	102.0	102.1	7.07	6.77	10.3	6.56	5.90	-1.4
Germany	+ 6.19 Jan	+ 53.0	– 25.1 Jan	-1.2	-1.0	99.1	98.9	2.11	2.02	3.08	1.96	1.76	1.4
Italy	+ 0.14 Dec	+ 1.3	– 4.4 Dec	-0.2	-0.1	72.8	72.9	2,087	1,998	3,051	1,936	1,742	-0.1
Japan	+ 4.99 Jan	+ 111.5	+ 114.0 Jan	2.3	2.3	138.5	153.9	120	105	175	111	–	-6.0
Netherlands	+ 1.92 Dec§	+ 14.6	+ 13.7 Q4	3.9	4.2	98.3	98.0	2.38	2.27	3.47	2.20	1.98	1.6
Spain	– 3.60 Dec	– 39.5	– 18.8 Nov	-3.1	-3.1	74.4	74.3	179	172	262	166	150	-0.3
Sweden	+ 1.14 Jan	+ 14.0	+ 5.6 Jan	2.1	2.0	76.9	83.6	9.74	8.69	14.2	9.04	8.13	3.4
Switzerland	+ 0.08 Jan§	– 0.9	+ 32.5 Q3	11.8	11.3	107.5	102.4	1.66	1.66	2.42	1.54	1.38	na
United States	– 39.18 Dec	– 449.5	– 416.5 Q3	-4.3	-3.9	117.6	107.8	–	–	1.46	0.93	0.83	2.3
Euro area	+ 0.63 Dec§	+ 11.2	– 26.7 Dec	-0.2	-0.2	79.7	80.5	1.08	1.03	1.58	–	0.90	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 1.13 Dec§	+ 13.2	+ 9.2 Dec	na	na	78.5	77.4	6.46	6.14	9.44	5.99	5.39	4.0
Greece	– 1.80 Q3	– 7.2	– 7.6 Sep	na	na	57.6	58.7	371	344	542	344	310	-1.0
Iceland	+ 0.01 Jan§	– 0.5	– 0.7 Q2	na	na	na	na	86.0	73.6	126	79.8	71.8	2.8
Ireland	+ 2.66 Nov	+ 25.9	+ 0.2 Q3	na	na	88.0	87.7	1.17	0.81	1.70	1.08	0.97	5.6
Luxembourg	– 0.18 Dec§	– 2.4	+ 1.6 Q3	na	na	99.3	99.2	43.9	41.6	64.2	40.7	36.7	na
New Zealand	+ 0.04 Jan§	– 0.6	– 3.3 Q3	na	na	79.1	84.2	2.33	2.04	3.41	2.16	1.94	0.5
Norway	+ 2.47 Jan	+ 26.0	+ 22.2 Dec	na	na	93.8	92.8	8.94	8.41	13.1	8.29	7.46	14.0
Portugal	– 1.10 Nov§	– 14.8	– 11.0 Nov	na	na	89.6	89.4	218	207	319	203	182	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.
§Not seasonally adjusted.

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STOCKMARKETS

Mar 15th 2001
From The Economist print edition

Increased concerns about America's economic downturn caused markets worldwide to slide. The Dow lost 7.0% over the week, to close below 10,000; the Nasdaq dropped below 2,000 to a two-year low. The Nikkei fell by 6.9% to a 16-year low.

Market indices	Mar 14th	2001 high	2001 low	% change on one week	% change on one year	% change on record high	Dec 31st 2000 in local currency	Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,211.0	3,312.1	3,154.7	− 2.9	+ 1.5	− 3.6	+ 1.8	− 8.6
Austria (ATX)	1,186.4	1,219.5	1,052.2	− 2.7	+ 8.1	− 31.7	+ 10.5	+ 7.4
Belgium (Bel 20)	2,849.5	3,030.4	2,849.5	− 4.5	+ 4.7	− 22.6	− 5.8	− 8.5
Britain (FTSE 100)	5,625.9	6,334.5	5,625.9	− 6.3	− 12.7	− 18.8	− 9.6	− 12.3
Canada (Toronto Composite)	7,806.9	9,348.4	7,806.9	− 6.0	− 16.0	− 31.5	− 12.6	− 15.4
Denmark (Copenhagen SE)	881.2	1,002.1	881.2	− 5.7	+ 3.2	− 15.2	− 2.8	− 5.7
France (SBF 250)	3,309.9	3,820.2	3,309.9	− 6.5	− 16.7	− 24.6	− 12.2	− 14.8
Germany (Xetra DAX)	5,794.1	6,795.1	5,777.6	− 8.1	− 21.9	− 28.2	− 9.9	− 12.5
Italy (BCI)	1,653.1	1,948.4	1,653.1	− 5.5	− 19.8	− 24.2	− 13.7	− 16.2
Japan (Nikkei 225)	11,843.6	14,032.4	11,819.7	− 6.9	− 37.9	− 69.6	− 14.1	− 18.9
(Topix)	1,162.0	1,313.0	1,162.0	− 6.0	− 27.6	− 59.7	− 9.5	− 14.5
Netherlands (EOE)	568.5	642.3	568.5	− 5.0	− 11.7	− 19.0	− 10.8	− 13.4
Spain (Madrid SE)	893.7	963.9	878.6	− 5.0	− 19.0	− 22.0	+ 1.5	− 1.5
Sweden (Affarsvarlden Gen)	260.0§	292.7§	243.4§	− 3.2	− 29.6	− 35.0	− 6.3	− 11.8
Switzerland (Swiss Market)	7,225.7	8,135.4	7,225.7	− 5.0	+ 5.4	− 14.1	− 11.2	− 14.7
United States (DJIA)	9,973.5	10,983.6	9,973.5	− 7.0	− 1.6	− 14.9	− 7.5	− 7.5
(S&P 500)	1,166.6	1,373.7	1,166.6	− 7.5	− 16.2	− 23.6	− 11.6	− 11.6
(Nasdaq Comp)	1,972.0	2,859.2	1,923.4	− 11.3	− 57.0	− 60.9	− 20.2	− 20.2
Europe (FTSE Eurotop 300)*	1,358.1	1,545.5	1,358.1	− 6.2	− 13.8	− 20.3	− 11.4	+ 3.5
Euro area (FTSE Ebloc 100)*	1,214.6	1,404.1	1,214.6	− 6.6	− 14.8	− 21.7	− 12.8	+ 1.9
World (MSCI)†	1,066.2	1,249.2	1,066.2	− 7.4	− 20.9	− 26.4	na	− 13.2
World bond market (Salomon)‡	440.6	447.8	437.7	− 0.7	+ 1.8	− 4.2	na	− 0.8

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond index, total return, in dollar terms. §Rebased.

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WOMEN IN PARLIAMENT

Mar 15th 2001
From The Economist print edition

Sweden retains its position as the country with the biggest proportion of women in parliament, with 43%. The latest figures from Switzerland's Inter-Parliamentary Union also show that in Denmark, the Netherlands and Germany more than 30% of parliamentarians are women. But the female share is still only 14% in America and a paltry 11% in France and Italy. Women are making progress in Japan, though their numbers are still low at 7%. The picture is mixed outside the richest countries, too. Among emerging economies, South Africa still has the highest proportion of women in politics, at close to one-third. In Peru the number of female parliamentarians doubled in the past year, to 20%. Women lost ground, however, in Mexico and Venezuela, now at 16% and 10% respectively.

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FINANCIAL MARKETS

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From The Economist print edition

Plunging share prices in America and Japan dragged emerging stockmarkets down in their wake. Tumbling tech stocks knocked 9.3% off share prices in Tel Aviv. Istanbul dropped by 14.3%, as widely anticipated post-crisis reforms failed to materialise. Following political unrest, Jakarta fell by 9.6% and the rupiah lost 2.9% against the dollar.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 14th		Dec 31st 2000	
	Mar 14th	year ago	Mar 14th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.0	5.40	2,120.2	+ 1.2	– 3.3	– 3.3
Hong Kong	7.80	7.78	11.3	4.96	13,330.8	– 6.0	– 11.7	– 11.7
India	46.6	43.6	67.6	7.96	3,725.0	– 8.0	– 6.2	– 6.2
Indonesia	10,160	7,445	14,715	15.30	389.2	– 9.6	– 6.5	– 11.0
Malaysia	3.80	3.80	5.50	3.30	682.3	– 2.8	+ 0.4	+ 0.4
Philippines	48.2	40.7	69.8	11.69	1,523.8	– 5.0	+ 2.0	+ 5.8
Singapore	1.77	1.71	2.56	2.23	1,792.2	– 6.2	– 7.0	– 8.7
South Korea	1,277	1,136	1,849	5.68	543.3	– 4.5	+ 7.7	+ 6.6
Taiwan	32.5	30.7	47.0	4.70	5,658.2	– 2.1	+ 19.3	+ 21.5
Thailand	43.7	38.1	63.3	2.50	299.9	– 2.1	+ 11.4	+ 10.6
Argentina	1.00	1.00	1.45	6.58	449.6	– 6.1	+ 7.8	+ 7.7
Brazil	2.07	1.79	3.00	15.11	15,244.9	– 7.0	– 2.3	– 8.1
Chile	586	508	849	3.88*	4,944.8	– 1.1	+ 1.6	– 0.6
Colombia	2,286	1,946	3,310	13.10	830.0	nil	+ 16.5	+ 13.9
Mexico	9.57	9.41	13.9	15.92	5,813.8	– 8.2	+ 2.9	+ 3.3
Peru	3.52	3.41	5.1	10.01	1,274.5	– 0.8	+ 5.5	+ 5.7
Venezuela	705	661	1,020	13.94	7,637.4	– 3.4	+ 12.4	+ 11.7
Egypt	3.88	3.42	5.63	9.10	6,434.4	– 6.9	– 16.0	– 15.9
Israel	4.14	4.05	6.00	5.51	398.8	– 9.3	– 19.4	– 21.3
South Africa	7.87	6.31	11.4	10.45	8,539.7	– 6.4	+ 2.6	– 1.3
Turkey	981,500	562,240	1,421,506	71.00	8,150.8	– 14.3	– 13.6	– 41.0
Czech Republic	37.9	35.5	54.9	5.06	443.4	– 6.0	– 7.3	– 8.0
Hungary	292	256	423	11.15	6,757.8	– 6.6	– 13.9	– 16.9
Poland	4.07	4.09	5.89	18.09	14,061.1	– 8.9	– 21.2	– 20.0
Russia	28.7	28.8	41.5	25.00	167.5†	– 7.2	+ 17.0	+ 16.9

*Inflation adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

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Consumer-price inflation rose in February in China and Hungary, but slowed in Mexico; in Argentina prices are still falling. Israel's trade deficit widened in the year to February. South Africa had a $264m current-account surplus in the fourth quarter, the first since early 1999. South Korea's 12-month trade surplus widened in January.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.3 Q4	+ 2.3 Jan	+ 1.6 Feb‡	+24.0 Jan	+15.7 1999	168.3 Dec	157.7
Hong Kong	+ 6.8 Q4	− 0.1 Q3	− 1.2 Jan	−10.4 Jan	+ 9.4 Q3	114.3 Feb	93.1
India	+ 6.0 Q2	+ 2.8 Jan	+ 3.2 Jan	− 7.8 Jan	− 5.6 Q3	39.0 Feb	33.5
Indonesia	+ 5.2 Q4	+ 4.5 Q4‡	+ 9.1 Feb	+28.0 Jan	+ 6.1 Q1	22.6 Dec	26.5
Malaysia	+ 6.5 Q4	+12.5 Jan	+ 1.6 Feb	+15.6 Jan	+ 9.7 Q3	29.1 Jan	32.2
Philippines	+ 3.6 Q4	+ 8.6 Dec	+ 6.7 Feb	+ 7.3 Jan	+ 8.2 Nov	13.1 Dec	13.2
Singapore	+10.5 Q4	− 9.9 Jan	+ 2.0 Jan	+ 4.0 Jan	+21.8 Q4	80.1 Dec	76.8
South Korea	+ 9.2 Q3	+ 0.1 Jan	+ 4.2 Feb	+12.9 Feb	+11.5 Jan	95.4 Jan	76.7
Taiwan	+ 4.1 Q4	− 3.3 Jan	− 1.0 Feb	+ 9.1 Feb	+ 9.6 Q4	110.1 Feb	113.6
Thailand	+ 2.6 Q3	+ 3.5 Jan	+ 1.5 Feb	+ 4.0 Jan	+ 7.8 Jan	32.2 Jan	31.9
Argentina	nil Q3	− 2.0 Jan	− 1.7 Feb	+ 1.3 Jan	−10.5 Q3	25.2 Dec	26.3
Brazil	+ 4.4 Q4	+11.2 Jan	+ 5.4 Jan	− 1.1 Feb	−26.0 Jan	32.5 Dec	34.8
Chile	+ 5.8 Q3	− 2.3 Jan	+ 3.8 Feb	+ 1.5 Jan	− 1.0 Q4	14.7 Dec	14.4
Colombia	+ 2.1 Q4	+ 5.0 Jan	+ 8.1 Feb	+ 2.3 Dec	+ 0.2 Q3	9.3 Feb	8.1
Mexico	+ 5.1 Q4	+ 1.9 Jan	+ 7.1 Feb	− 8.6 Jan	−17.7 Q4	39.4 Jan	33.6
Peru	− 1.6 Jan	− 5.1 Dec	+ 3.6 Feb	− 0.4 Jan	− 1.6 Q4	8.4 Dec	8.7
Venezuela	+ 3.3 Q3	na	+ 12.7 Feb	+ 6.6 Oct	+13.4 Q4	13.9 Jan	12.3
Egypt	+ 6.5 2000†	+ 9.4 2000†	+ 2.3 Dec	−10.4 Q4	− 0.8 Q4	13.1 Nov	15.0
Israel	+ 3.0 Q4	+ 2.3 Dec	− 0.1 Jan	− 7.1 Feb	− 0.7 Q3	23.4 Feb	22.1
South Africa	+ 3.3 Q4	+ 5.7 Jan	+ 7.1 Jan	+ 3.4 Jan	− 0.5 Q4	6.1 Jan	6.4
Turkey	+ 7.4 Q3	+ 6.5 Jan	+ 33.4 Feb	−26.5 Dec	− 9.8 Dec	20.0 Dec	23.3
Czech Republic	+ 2.2 Q3	+13.8 Jan	+ 4.0 Feb	− 3.4 Jan	− 1.9 Q3	13.0 Jan	12.8
Hungary	+ 4.2 Q4	+ 6.4 Jan	+ 10.4 Feb	− 2.6 Jan	− 1.9 Jan	10.8 Jan	11.2
Poland	+ 2.2 Q4	+10.1 Jan	+ 7.4 Jan	−11.0 Jan	− 9.8 Jan	25.3 Dec	24.5
Russia	+ 7.7 2000	+ 5.3 Jan	+ 22.3 Feb	+61.0 Dec	+43.8 Q3	25.9 Jan	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999†	+ 4.6 Jul	+ 5.1 Dec	− 1.9 Jan	− 2.5 1999	1.5 Dec	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.3 Dec	+24.9 1999	+ 0.4 1999	16.7 Nov	14.1

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Text refers only to the first 25 countries listed

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